Mojave Water Agency

Fixed Assets
and
Surplus Property Policy

2009
Mojave Water Agency

Fixed Assets and Surplus Property Policy

1.0 PURPOSE

The purpose of this policy is to ensure adequate control and appropriate use of Agency “fixed assets.” The procedures are intended to define fixed assets and to establish guidelines for their budgeting, purchase, use, accountancy, logging, inventory, transferring and disposal.

It is the policy of the Mojave Water Agency that fixed assets be properly accounted for and used for appropriate Agency uses. It is the responsibility of the Finance Department to ensure fixed assets will be tagged whenever feasible, inventoried on a regular basis, and accounted for by fund and asset category. 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.

2.0 DEFINITION OF A FIXED ASSET

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

1. **Infrastructure Fixed Asset** – As defined by GASB 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, they shall be infrastructure assets, such as pipeline, with a cost greater than fifty thousand dollars ($50,000) and a useful life of at least twenty (20) years. Repair of assets do not qualify as a Fixed Asset regardless of the dollar amount, but rather as a maintenance item to be expensed. Where federal funds are used for the acquisition of Infrastructure Fixed Assets, the capitalization threshold will be the then current federal maximum, currently five thousand dollars ($5,000).

   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
   II. The project significantly increases the functionality of the system or a component of the system.
   III. The project significantly extends the useful life of an asset beyond what was originally established as the estimated useful life for that asset.

   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.

II. A repair activity that restores an asset to its original condition.

2. **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 five (5) years.

3. **Real Property** – This includes land, structures, easements and any improvements to the land and the structures with a cost of fifty thousand dollars ($50,000) and a useful life of at least twenty (20) years. However, where federal funds are used for the acquisition of this type of asset the capitalization threshold will be the then current federal maximum, 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.

The capitalization thresholds above will not be applied to individual units of capital assets. 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. In addition, the threshold will generally not be applied to components of capital assets.

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

3.0 GENERAL FIXED ASSETS

3.1 Purchasing a General Fixed Asset

When purchasing a General Fixed Asset, follow the procedures set forth in the Purchasing Policy. Include on the purchase order/requisition the location of the asset being purchased.

The requested asset should have already been included in the current year’s budget and should be verified prior to purchase. If the General Fixed Asset is not in the budget, you must contact the Finance Department to determine appropriate action.

3.2 Tagging

The Finance Department, with assistance from the other departments, will be responsible for tagging General Fixed Assets.
Why Tag An Asset

- To provide accountability for the assets, ensuring the asset assigned to a department is controlled and accounted for by a specific department/person
- To support inventory control
- To provide auditors with a mechanism to verify the Agency’s control of capital assets and to provide an accurate account of the Agency’s capital expenditures

Should The Asset Be Tagged

- Yes, if cost of asset is greater than $5,000 and useful life is greater than 5 years
- Yes, if it is physically possible/practical to tag and meets the dollar and life guidelines
- Yes, if it is an asset that is handled frequently, has a high cost, and/or is likely to be stolen
- Yes, if the asset needs to be controlled due to high incidence of theft/misplacement/borrowing
- Generally no, if the asset cost is less than $5,000 and will be used up in less than 5 years.

3.3 Transferring General Fixed Assets to Another Department or Location

Assets are often transferred to another department or location as needed for efficient operations. A Fixed Asset Disposition Form should be completed for each asset that is moved from one department or location to another. The completed form is forwarded to the Finance Department. The locations codes will then be updated in the Fixed Asset database. Assets are transferred at value.

3.4 Physical Inventory

Agency wide physical inventory will be completed not less than bi-annually.

An Inventory list of all equipment assets shall be distributed to each department to verify the assets they have purchased or have received in transfer to their department. The results of the inventory shall be compared to the Fixed Asset System and any differences shall be reconciled by the appropriate departmental personnel and the Finance Department. Assets not identified, i.e., lost, missing, or stolen, will require a separate written explanation from the Department responsible for the asset. In addition, Finance will periodically audit, or verify, the inventory of assets.

3.5 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 complete a Fixed Asset Disposition Form for each fixed asset deemed surplus. The completed form shall be submitted to the Finance
Department. 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 (see section above “Transferring Assets to Another Department or Location”).

*Temporary Storage of Surplus Property:* The Agency has limited storage capacity for surplus property. Because of the limited nature of the space, it may be necessary for departments to retain surplus property until the auction or bid sale date. Arrangements for storage, security, and accountability of the assets while in storage will remain the responsibility of the Department disposing of the assets. For all items moved to temporary storage, the departments are responsible for completing the Fixed Asset Disposition Form(s) and forwarding the form(s) to the Finance Department. This will provide notification of an item’s availability for re-deployment, disposal or auction.

*Disposal Process:* Prior to disposal of any surplus property, each department will complete a Fixed Asset Disposition Form. This form is to be approved by signature of Agency staff responsible for the department that is responsible for the asset being deleted. The form is to be forwarded to the Finance Department. Once approved by the Chief Financial Officer, the asset will be deemed to be surplus and eligible for disposal.

### 3.6 Disposal of a General Fixed Asset

The Chief Financial Officer is responsible for the disposition of Agency surplus General Fixed Assets. Once the asset has been surplused, the Chief Financial Officer 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.

1. **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 purchasing. If surplus property is to be applied to a purchase order, the trade-in value shall be itemized on the P.O. The amount charged against the expenditure account will be the value of the purchase before application of the trade-in credit.

2. **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 Finance Department.

3. **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.
4. **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 Finance Department.

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 for at least two weeks prior to the negotiated sale to ensure no other interested buyers are available.

5. **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.

3.7 **Proceeds**

The buyer shall pay the Agency by certified check, money order, or in a manner agreeable to the Chief Financial Officer, to the assets being handed over. The Chief Financial Officer 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 Chief Financial Officer.
4.0 INFRASTRUCTURE FIXED ASSETS

4.1 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, and legal costs 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, currently $25,000.

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.

4.2 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. In certain instances, it may be impossible to identify the prorated cost of the original asset. In these instances, the value to be removed from the Fixed Asset system will be calculated as follows:

New infrastructure cost X NPV factor at 2% or;

\[ PV = \frac{1}{(1+.02)^n} \]

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:
\[ $300,000 \times \frac{1}{(1.02)^{35}} = $150,008 \]

The formula in Excel is \( $300,000 \times \frac{1}{(1.02)^{35}} \)

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.

### 5.0 REAL PROPERTY

#### 5.1 Recording Infrastructure Fixed Assets

Real property will be recorded at historical cost and tracked through the Job Cost/Project Cost system in a manner consistent with the recording of Infrastructure Fixed Assets (see 4.1 above). All deed and easement paperwork will be filed with the Engineering department.

#### 5.2 Disposal of a General Fixed Asset

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.