

# REGIONAL WATER AUTHORITY POLICIES AND PROCEDURES MANUAL

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Policy Type : Fiscal Management  
Policy Title : Fixed Asset Policy  
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The purpose of this policy is to establish guidance in identifying, capitalizing, depreciating and accounting for the Regional Water Authority's fixed assets.

A fixed asset is an asset owned by the Authority that 1) is acquired for use in the Authority's operations; 2) possesses physical substance; 3) is long-term in nature (i.e., useful life exceeds 1 year); and 4) is subject to depreciation.

## **Fixed Asset Categories**

Fixed assets shall be segregated into the following categories:

- A. Office furniture and fixtures.
- B. Office equipment which includes but is not limited to computer systems, software, copiers, printers and telephones.
- C. Building and Leasehold improvements.

## **Capitalization Thresholds**

Fixed assets are owned and shared equally with the Sacramento Groundwater Authority as defined in Policy 100.2 "Administrative and Management Services Agreement" unless purchased for exclusive use by the purchasing entity. Fixed assets are eligible for capitalization if they have an estimated useful life of at least one year following the date of acquisition and have a dollar value greater than \$2,500 for each entity. Such criteria shall be applied to individual assets and not to groups of similar assets.

## **Valuation of Fixed Assets**

The value assigned to fixed assets shall be based upon principles promulgated by the Governmental Accounting Standards Board and/or Generally Accepted Accounting Principles. The asset capitalization value is determined as follows:

### **Purchased Fixed Assets**

The capitalized value of purchased fixed assets shall be determined using the purchase price of the asset.

If the purchase price of an asset is not available or cannot be reasonably determined, an estimated cost may be utilized based upon the best available information.

### Donated Fixed Assets

The capitalized value of donated assets shall be determined using the fair market value at the time of donation. If the fair market value of the asset is not available or cannot be reasonably determined, an estimated cost may be determined using the best available information.

### Capitalizable Costs

Costs eligible for capitalization under this policy are:

- Purchase price
- Sales tax
- Freight and handling charges
- Insurance costs while in transit
- Assembling and installation charges
- Professional fees of engineers, inspectors, attorneys, consultants, etc., associated with the asset
- Discounts or rebates shall be accounted for as a reduction to the purchase price
- One-time costs necessary to accommodate the equipment in its new location

### Capitalization of Costs Subsequent to Acquisition

Additional costs incurred after a fixed asset is placed in use shall be accounted for as follows:

#### Additions

An “Addition” is defined as expenditure that either significantly extends the useful life or productivity of the existing fixed asset or creates a new fixed asset. All “Additions” to existing fixed assets should be capitalized as long as the asset meets the capitalization threshold above.

#### Improvements and Replacements

“Improvements and Replacements” are defined as expenditures that involve substituting a similar fixed asset, or portion thereof, for an existing one. All “Improvements and Replacements” to existing fixed assets should be capitalized as long as the asset meets the criteria of the capitalization threshold for additions above. If the existing asset’s book value is determinable, then the existing asset should be removed from the books at the time the replacement is recorded. If the existing asset is not separately identifiable, then the replacement should still be capitalized as the existing asset’s book value is assumed to be negligible.

### Repairs and Maintenance

“Repairs and Maintenance” costs are defined as expenditures that involve maintaining the asset in good or ordinary repair. All “Repairs and Maintenance” costs should be expensed in the period incurred.

### Depreciation of Fixed Assets

Fixed assets shall be depreciated on a straight-line basis beginning the first day of the month following acquisition. Depreciation shall approximate the useful life of the assets.

Guidelines for asset depreciation lives will be:

Office furniture and equipment	5 years
Computer software costs	3 years
Leasehold improvements	Life of the lease
Building Costs	30 years
Field Equipment	3 to 10 years

### Physical Inventory of Fixed Assets

A physical inventory of fixed assets shall be performed annually.

The results of the physical inventory shall be reconciled with the Authority’s asset inventory system. Differences will be reported, along with explanations, to the Board of Directors.

### Disposal of Fixed Assets

Fixed assets that have become obsolete shall be disposed in accordance with the Authority’s Policy 300.3 “Disposal of Surplus Property.”

### Policy Review

This policy shall be reviewed at least every five years.