

GREENVILLE WATER

POLICY NO. FIN-12

DATE: 12/01/2015

SUBJECT: Fixed Asset Policy

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I. Introduction

A fixed asset is defined as being tangible in nature and having a useful life longer than one year. Land, system infrastructure, buildings, vehicles, and equipment are generally what come to mind when we discuss fixed assets. Maintaining a complete and accurate accounting of Greenville Water's fixed assets with significant value is very important. The responsibility of stewardship involved in safeguarding such a large public investment is of the utmost importance to sound financial administration. This responsibility can be discharged only through an effective fixed asset accounting system.

II. Fixed Asset Accounting System

A. Function & Benefit

The purpose of the fixed asset system is to ensure that our accounting records properly summarize fixed asset expenditure transactions, that physical safeguards are present to control our fixed assets, and that our records substantiate that assets used by Greenville Water are actually owned by us. An effective fixed asset system enables us to provide the proper stewardship over the large public investment we are responsible for, as well as present financial reports that accurately reflect this investment.

Fixed asset accounting procedures, internal controls and records are essential for effective property management, including insurance and risk management. The fixed asset system provides information for each recorded asset including its description, serial number, location, cost, date acquired, and depreciation. This information is necessary to determine the amount of property insurance required

and to adequately document a claim in the event of damage or loss from an insurable event.

A well maintained system also serves as a tool for use by management in decision-making. Proper use of fixed asset records may prevent unneeded assets from being acquired. Fixed asset information is also helpful in planning and budgeting for long-term capital needs.

The Accounting Division and the user departments working together in utilizing accounting records, source documents, fixed asset forms and reports can obtain an accurate recording of fixed asset transactions and information. This information can then be processed and entered into our fixed asset software.

B. Source Documents

Fixed asset forms will include a form that will be generated when assets are purchased or acquired by other means (Fixed Asset Addition), and a form (Fixed Asset Change Form) that will be generated when a fixed asset is sold, stolen, destroyed, transferred, etc. Source documents utilized by the Accounting Division include invoices, purchase orders, packing slips, and check copies.

C. Programs and Reports

Fixed asset software is used to maintain fixed asset information. Reports generated by the program include information on the listing of assets, depreciation, year to date additions and disposals.

III. Policies and Procedures

A. User Department Responsibilities

Ultimate responsibility for the stewardship of fixed assets rests with the user departments. Without their involvement and assistance, the fixed asset system cannot be maintained effectively.

B. Accounting Division Responsibilities

The Accounting Division's responsibilities include maintaining the fixed asset records required for financial reporting and managerial decision-making purposes.

C. Expenditure Accounts

Fixed assets or capital acquisitions are budgeted and accounted for in the general ledger in the following accounts:

1500

Land

1600 – 1700	Rights of Way
1900 – 1999	Buildings & Grounds
2000 – 2099	Standpipes & Tanks
2100 – 2190	Dams & Reservoirs
2200 – 2299	Mechanical Plant
2300 – 2399	Transmission
2400 – 2499	Distribution
2500 – 2599	Meters
2600 – 2697	Meter Boxes/AMR
2700 – 2799	Valves
2800 – 2899	Fire Hydrants
2900 – 3090	Railroad Siding: Pipe Yard
4010 – 4093	Office Equip & Furniture
4110 – 4199	Tools & Equip
4200 – 4299	Autos & Trucks
4300 – 4399	Equipment - Maintenance Building
4400 – 4499	Office Facilities
4500 – 4599	Lab Furniture & Equip

D. Valuation of Fixed Assets

Fixed assets should be recorded at historical cost. The cost of a fixed asset includes the purchase price or construction costs (including costs of engineering studies), and ancillary charges necessary to acquire the asset or to place it in the intended location and condition for use. Ancillary charges include costs such as transportation, permits, site preparation, professional fees and legal claims attributed directly to asset acquisition. For equipment, the cost of assembly and installation, and any testing or calibration should also be capitalized.

Donated assets are those acquired by gift or contribution and should be valued at their fair market value at the date of acquisition. Assets acquired by these methods are recorded as fixed assets with a corresponding credit to contributed capital.

Interest costs on assets constructed with the proceeds from debt should be capitalized as part of the cost of that asset. Those assets financed from tax exempt debt that restricts the use of proceeds of that debt to the acquisition of that particular asset, should have the interest capitalized net of any interest earned on the proceeds from the time of the borrowing until the completion of the project. Assets financed from debt borrowings that do not restrict the use of the proceeds of the financing to the acquisition of a particular asset, should have the interest on that debt capitalize from the time when construction expenses are incurred until the project is completed.

E. Capitalization Policy

Greenville Water has established a capitalization threshold of \$2,500. This means that assets valued less than \$2,500 will not be recorded in the fixed asset records, with two exceptions. One exception is meters and the second is land which will be recorded without regard to value. The rationale behind setting a \$2,500 minimum on the capitalization of fixed assets is to avoid recording assets with low values that do not, in aggregate, amount to a material portion of the value of our fixed assets. The less time spent controlling assets that have little impact on our financial status, the more time that can be devoted to controlling the larger dollar items.

F. Treatment of Costs Subsequent to Acquisition

Costs associated with fixed assets that occur subsequent to acquisition such as repairs, improvements, and additions are capitalized only if they significantly improve the performance of the asset, or significantly extend its life and meet the capitalization threshold of \$2,500.

G. Tagging

Assets will be tagged when acquired, with the tag having a fixed asset number as assigned by the Accounting Division. Assets that do not meet the capitalization threshold should also be tagged, but the tag will not have a number on it. Unnumbered tags will be given to department and division heads to affix to equipment that costs below \$2,500 and that have enough space for a tag to be placed on it.

H. Coding and Classification

Fixed assets will be recorded by class and function/description. They will be assigned an identification number that will increment by one. Asset ID's will be unique and none shall be duplicated or reused in the event of a disposal. Classifications will be made and will be assigned as follows:

Land

Land
Rights of Way

Buildings & Grounds

Buildings & Grounds
Standpipes & Tanks
Dams & Reservoirs
Mechanical Plant

Water Supply and Distribution

Transmission

Distribution
Meters
Meter Boxes
AMR Pilot Project
Valves
Fire Hydrants
Railroad Siding: Pipe Yard
Office Equip & Furniture

Equipment and Furnishings

Tools & Equip
Autos & Trucks
Equipment - Maintenance Building
Office Facilities
Lab Furniture & Equip

I. Physical Inventories

Physical inventories will be conducted to reconcile the fixed asset schedule to fixed assets actually on hand. The purpose of physical inventory is to verify the existence, condition and accuracy of our records for equipment owned by, donated to or accountable to Greenville Water. This is a team effort involving employees from Accounting as well as other department's staff. A cyclical physical inventory will occur to include all departments every 5 years. The most recent fixed asset schedule will be used for inventory purposes. It will reflect all acquisitions and disposals up to the starting date of the inventory. Annually, each department will be responsible for reviewing and signing off on the list of assets assigned to their area. The department head signature is his or her validation of their department's equipment. The list will be forwarded back to Accounting for review. The updated schedules will be reconciled with the removal reports in the event of changes. The permanent fixed asset records will be updated prior to the December 31 year end close.

Fixed asset records are used to assist in the determination of adequate insurance coverage on property, vehicles and equipment. A review of insurance coverage on fixed assets will be conducted annually and completed prior to December 31 to ensure an accurate January 1 renewal.

J. Impairment of Fixed Assets

An impairment of a fixed asset is defined as a significant, unexpected decline in the service utility of a fixed asset. A fixed asset should be tested for impairment when any one of the following triggering events occurs:

- Decline in market value of the asset;
- Change in the way the asset is used or a physical change in the asset;

- Adverse changes in legal factors or business climate;
- Accumulated cost in excess of amounts originally expected to construct or acquire an asset;
- Current expectation that an asset will be sold or disposed of significantly before the end of its useful life; and
- Current period losses with history of operating or cash flow losses associated with an asset.

If it is determined that a significant and unexpected decline in service utility has occurred that is more than temporary, it must be measured and reported in the financial statements. Department heads are required to complete a Fixed Asset Change Form to identify the impaired asset.

K. Disposal of Fixed Assets

Fixed assets shall be declared surplus by the Chief Executive Officer before being disposed and should then be disposed of in accordance with the methods provided in the Greenville Water Procurement Policy. Asset disposals including trade-ins will be accounted for using Generally Accepted Accounting Principles (GAAP).

User departments should fill out a Fixed Asset Change Form when one of their assets is sold, stolen, destroyed or transferred, etc.

L. Useful Lives

Useful lives will be assigned to fixed asset classifications as follows:

Buildings	40 - 50 years
Water supply and distribution system	25 -100 years
Equipment and furnishings	2 - 20 years

M. Depreciation

Fixed assets will be depreciated using the straight line method. No salvage values will be assigned to fixed assets. A half year depreciation will be taken on fixed assets for the year of acquisition.

Group depreciation will be used for water meters. Meters will be grouped by meter size, and by year and each group will be depreciated collectively. Meters 2" and below will have the group method applied.

Leases will be determined and accounted for as capital or operating pursuant to GAAP.

N. Recording of Fixed Assets

Fixed Asset Addition form will be generated by the departments with basic information about the asset when it is purchased (i.e. model number, serial number, etc.). Additionally, capital accounts, maintenance and repair accounts, contracted services accounts, and departmental materials and supply accounts in the monthly detail reports will be analyzed for expenditures at or above the \$2,500 capitalization threshold.

Transactions at or above \$2,500 in the repairs and maintenance accounts will be analyzed to determine whether or not they meet the criteria for capitalization. Also, transactions in the departmental materials and supplies and contracted services line items that meet the capitalization threshold will be analyzed to determine whether or not they are indeed fixed asset purchases. Although these are not capital expenditure accounts, fixed asset purchases are sometimes inadvertently coded to these accounts.

All costs associated with the acquisition of fixed assets should be captured even though they may occur over a period of time. Source documents and related backup materials will be pulled and maintained in a file for all fixed assets that are capitalized.

Other sources of fixed asset acquisition information include contracts which Greenville Water enters into, Commission meeting agendas and minutes, as well as Operating Budget and Capital Improvement Program documents.

Labor and material costs associated with construction projects will be allocated to projects annually. Projects that span several years should have their costs accumulated in a construction work in progress account until complete, whereupon they will be transferred to the appropriate classification.

Another source of additions to Greenville Water's system is water lines and services installed by developers during construction of subdivisions, which are donated to us for continued maintenance.

Labor and material costs allocated for capital improvements will be reclassified into the appropriate capital accounts by journal entry at year end.