



FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

SECTION 7

Asset Acquisitions

1 Purpose

The purpose of this section is to establish procedures for capitalizing and recording fixed assets acquired through purchases from outside suppliers.

2 Scope

Fixed assets will be recorded at original (historical) cost, plus or minus, if applicable, the effects of claims and judgments arising from the acquisition of assets (i.e., recoveries from contractors or judgments against the City). Adjustment due to gain or loss contingencies will be made as follows:

- Gain Contingencies – Fixed asset book values will be adjusted only when recoveries have been received.
- Loss Contingencies – Fixed asset book values will be adjusted when a fixed asset has been impaired and the amount of the loss can be reasonably estimated.

Original cost will include both the purchase price or construction cost of the asset and any other necessary and reasonable costs incurred to place the asset in service in its intended location. Cost by funding source will be recorded in each asset record.

In those instances where the original (historical) cost is not available, assets will be valued in accordance with professional appraisal standards to estimate the historical cost.

3 Guidelines

3.1 Land

The original cost of purchased land will include the purchase price and any other charges necessary to purchase the land.

If the City acquires both land and building(s) as one parcel, the value of the land will be determined separately from the building(s) and recorded in the land asset classification account.

Other charges may include site preparation expenditures, such as demolition and/or removal of existing buildings and structures, professional fees, and legal claims that will be directly attributable to the land acquisition.

Costs related to the demolition or removal of existing structures (less salvage value) will generally be considered to be part of the cost of the land and will be capitalized, provided the land was acquired with the expressed intent of demolition and clearing of the existing structure.



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3.2 Buildings and Improvements

The original cost of buildings will be recorded at purchase price or construction cost.

All charges associated with the building, such as broker fees, architect and legal fees, interest on construction (when applicable), inspection, testing, design, and project administration costs, will be included. The cost of asset systems may be capitalized separately or included in the original cost of the building.

3.3 Improvements Other than Buildings

The original cost of improvements other than buildings (i.e., airport runways and taxiways, parking lots, fences and walls, signage, and similar property not associated with a building or otherwise classified as public domain or infrastructure) will be recorded at purchase price or construction cost. All costs applicable to the improvement, such as professional fees, design, inspection, testing, and project administration costs, will be included.

3.4 Machinery and Equipment (Including Vehicles)

The original cost of machinery and equipment will be recorded at purchase price and will include any fees necessary to place the equipment in service, such as title fees, decals, freight, handling, installation, and inspection costs. Purchases of vehicles and rolling stock will be coordinated through the Fleet Management Division of Finance & Administration (F&A).

Costs that are excluded from the cost of equipment and are charged directly to expense include, but are not limited to, the following:

- Required licensing and registration fees for City vehicles and operational equipment
- Expenditures for repairing a piece of equipment damaged during shipment
- Relocation and rearrangement of existing equipment to accommodate the acquisition

3.5 Construction in Progress

Construction in progress includes all partially completed projects for the construction of an asset. The cost of construction in progress will not be capitalized until the construction is complete and/or the constructed asset is placed into service.

For purposes of capitalization (placement into service or capitalization within the system), a constructed asset will be considered completed when occupied or upon acceptance by the City of the total project construction cost. Prior to capitalization, project expenditures should be charged to *Construction in Progress* in the appropriate capital project fund.



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Internal labor charges and other administrative costs directly associated with a capital project may be charged to *Construction in Progress* and subsequently capitalized. The following criteria should be applied to determine whether such project-related costs should be capitalized or treated as normal periodic expenditures:

- Costs are chargeable to a capital project if they would not have been incurred during the specified time period in the absence of the project.
- Costs for dismantling, removal, or disposition of existing City-owned equipment and improvements in preparation for a new project may be capitalized by project. See the guidelines for land in subsection 3.1 in this section.

3.6 Group Purchases/Unit Cost

Fixed assets purchased in quantities of two or more will be capitalized and recorded based upon a determination of whether the multiple units meet the definition of an asset system or are individual assets in multiple quantity.

If the purchase is determined to be individual assets in multiple quantity, individual asset records will be established if the aggregate (combined) cost of the group purchase when divided by the number of units purchased results in a unit cost **equal to or greater than \$5,000** and the units have an expected useful life of more than 1 year.

If the purchase is determined to be a group asset of multiple like items, a single asset record (with a count equal to the number of multiple units) will be established only if the aggregate (combined) cost of the group exceeds the \$5,000 capitalization criteria, the units have an expected useful life of more than 1 year, and the units will remain together physically for control purposes.

If the individual units do not meet any of the above group asset criteria, they will be treated as expense items in the current accounting period.

4 Responsibilities by Major Asset Category

4.1 Machinery and Equipment (Excluding Rolling Stock)

4.1.1 Purchase Order (PO) Acquisitions

Receipt, tagging, and capitalization will be coordinated by the Department Fixed Asset Coordinator (DFAC) of the acquiring department.

4.1.2 Contracts or Capitalized Lease Acquisitions

The Contract Administrator of the contracting department, working through the DFAC, will coordinate receipt, tagging, and capitalization.



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4.2 Vehicles, Motorized Equipment, and Other Rolling Stock

Fleet Management, working through the Department Vehicle Coordinator (DVC) of the acquiring department, will coordinate receipt and capitalization.

4.3 Purchased Land, Buildings, and Improvements

The Public Works & Engineering (PW&E) Real Estate Division completes the acquisition for land purchases. The PW&E Resource Management Division processes other related project and capitalization information. This information is then provided to the DFAC for recording in the Fixed Asset Management System (FAMS). The procedure is explained in Section 9 (Constructed Assets).

5 Responsibilities by Organization or Position Assignment

5.1 Department Fixed Asset Coordinator (DFAC)

- Coordinates all aspects of the tagging and capitalization of fixed asset and controlled item purchases of machinery and equipment (excluding rolling stock), whether acquired by PO or contract. This includes coordinating and integrating the activities of other procurement and receiving functions within the DFAC's department for fixed assets and controlled items.
- Monitors and processes into the FAMS the capitalization of vehicle and rolling stock purchases provided by Fleet Management.
- Establishes the initial item records in the FAMS for all of the above.
- Coordinates subsequent transactions, such as betterment, transfers, dispositions, etc., in accordance with all applicable fixed asset management procedures.

5.2 Department Purchasing Unit (DPU)

- Advises and coordinates with the DFAC on purchase activity related to fixed assets and controlled items.
- Enters, in accordance with guidelines provided by the DFAC, the appropriate asset code (1, 2, or 3) in the *Commodity Type* field on the requisition screen of the Financial Management System (FMS).

Note: *Procedures will be established within each department to provide fixed asset purchase and receiving information to the DFAC.*



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5.3 Department Receiving Staff

- Initiates and carries out required tagging tasks as defined in Section 5 (Numbering and Tagging Fixed Assets) and associated internal department tagging procedures, in conjunction with the DFAC.
- Provides timely notification, in conjunction with DPU staff, to the DFAC of the receipt of a fixed asset or controlled item.
- Provides information for tagging and for the FAMS Capitalization Form–Data Entry Form Fixed Asset Acquisitions (FA-1), as appropriate, to the DFAC.

5.4 Department Contract Administrator

- Oversees and reviews, with assistance from the DFAC, all departmental contracts to ensure that all contract purchases involving purchases of machinery and equipment (excluding rolling stock) are properly identified and capitalized.
- Coordinates with the DFAC to ensure that contract items, when received or accepted by the City, are tagged in a timely fashion and have a properly initiated FA-1.

5.5 Department Accounts Payable Staff

Provides the DFAC with all invoiced costs associated with a fixed asset or controlled item receipt for items purchased either by PO or contract.

5.6 Department Vehicle Coordinator (DVC)

- Coordinates vehicle and rolling stock acquisitions required by the Fleet Management system, which take place concurrently with acquisitions in the FMS purchasing system.
- Provides vehicle and rolling stock information required by the FAMS (e.g., FA-1 information) to the acquiring DFAC on a timely basis.

5.7 Asset Management

- Functions as a Fixed Asset Control Group to monitor capital fixed asset and controlled item purchases.
- Verifies the establishment of records in the Central FAMS.



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5.8 Fleet Management

- Functions as a Fixed Asset Control Group to coordinate all vehicle and rolling stock purchases.
- Assigns fixed asset identification (FAI) numbers.
- Provides each department with basic vehicle fixed asset record information to create the vehicle acquisition record for new vehicles for input into the FAMS.

6 Asset Acquisition by Purchase Order (PO) Procedure

Requisitions and POs for fixed assets and controlled items acquired through purchase will be processed in accordance with the City's procurement procedures as detailed in *Administrative Procedure 5-2* and other applicable administrative procedures and executive orders.

1. The ordering section will initiate the requisition request for a fixed asset or controlled item (including Capital Outlay Justification as appropriate) and forward it to the DPU in accordance with department procedures.
2. The DPU will enter the approved Purchase Requisition in the FMS. The DPU will be responsible for coding and entering a correct FAMS code in the *Commodity Type* field on the PO. A FAMS code is required for all line items that are
 - charged to FMS capital expenditure objects (the 4000 series) and have a cost equal to or in excess of \$5,000; or,
 - meet FAMS recording requirements for a controlled item.

Note: *Requisition line items chargeable to capital expenditure accounts (4000) are not to be coded to a high-level commodity code.*

The following codes may be used:

- *Fixed Asset*
 - *Controlled Item*
 - Either *Asset System* or *Group Asset* as outlined in Section 3 (Multiple Unit Assets)
3. When the PO has been issued, the DPU will forward copies to the ordering and receiving sections in accordance with department procedure. In addition, a copy will be forwarded to the DFAC and the receiving location (if the remote receiving location is responsible for tagging and FA-1 initialization) as notification of a pending fixed asset receipt.



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4. Upon receipt, the item will be accepted and processed by the receiving location in accordance with City policy and department procurement procedure. This includes entry of the appropriate FMS Receiver and forwarding of receiving documentation to the appropriate department staff.

Additionally, as notification of the item's receipt, a copy of the accepted shipping documents, with the FMS Receiver number noted where possible, will be forwarded to the DFAC.

5. The item will be tagged and a FA-1 will be initiated and completed.
6. The FA-1, including the assigned FAI/tag number, will be forwarded to the DFAC. At a minimum, the following fields of the FA-1 are to be completed:

- *Asset Number*
- *Asset Description*
- *Purchase Order Number*
- *Ordering Department*
- *Ordering Location*
- *Received Date*
- *Manufacturer*
- *Model*
- *Serial Number*
- *Quantity*
- *Unit or Total Cost*

7. Periodically, F&A Asset Management will forward a copy of the Posted Receiving Report to the DFAC as additional verification/notification that an item with a fixed asset commodity type has been entered as an FMS Receiver.

8. The DFAC will complete the FA-1 in preparation for data entry into the FAMS. The DFAC will determine whether any additional information is required on the form for data entry as follows:

- If a tag could not be physically affixed to the asset, the nontagged (NT) asset may be recorded in the NT log book and the tag bearing the number assigned to the asset will be attached to the asset file or stored in the log book, if established. See Section 5 (Numbering and Tagging Fixed Assets).
- The Asset Class or Fast Code (standard descriptor code) will be assigned.



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- The DFAC will verify or determine the costs and provide any applicable funding split information to include in the capitalized value of the asset according to the procedures outlined on the FA-1. This information may include a) final invoice cost information from the Department Accounts Payable section, preferably by copy of vendor invoice; b) allocations of capitalized costs to multiple items, if applicable; c) any capitalized costs to be added after receipt of the equipment, such as installation costs (to be noted and collected once the equipment is in place); or d) the Acquisition Method, Capitalization, and other optional information.
 - If the asset has been acquired with grant funds, the DFAC will complete appropriate grant information on the FA-1.
 - The Extended Description on the back of the form will be completed as appropriate.
9. The DFAC will sign the completed FA-1 and forward the document to the FAMS data entry section to set up the asset record in the FAMS.

7 Procedure for Recording Related Accounting Transactions

1. The accounting transactions related to the acquisition of fixed assets and controlled items will be initially recorded as expenditures in the appropriate 4000 object codes in the FMS.
2. Transactions related to the acquisition of controlled items will be recorded as expenditures in the appropriate supply and services object codes.
3. At year-end, or on such other cycle as may be required by City financial reporting policies, current expenditures for fixed assets and controlled items will be recorded in asset accounts for balance sheet reporting. Data from the department FAMS will be used for this purpose.
4. Capitalization will consist of a debit to the appropriate balance sheet asset account and a credit to the current period expenditure account to which the item was initially charged. All capitalization entries will follow each department's detailed accounting and financial reporting procedures.
5. Capitalized assets will be recorded as follows:
 - The DFAC will enter into the FAMS the appropriate FMS fund code and Acquisition Method and other data necessary for the system to establish proper source of funds for creation of a journal entry by the Controller's Office at year-end to capitalize assets set up in the FAMS asset file.
 - At year-end, the FAMS will provide the Controller's Office with a schedule of capital assets acquired during the current year as required.



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- This will enable the Controller's Office to properly capitalize each department's fixed asset acquisitions in the FMS.
6. Controlled items will be recorded as follows:
- Controlled items are noncapital. Therefore, their procurement will remain as a noncapital expenditure in the FMS and will be reflected as a noncapital asset in the FAMS asset item records.
 - Controlled items will be controlled in the same manner as fixed assets in terms of records, tagging and periodic inventories, and will have a Capitalize Code of **No** in the FAMS that will trigger the same capitalization procedures as used for fixed assets—except for the accounting transactions and coding only applicable to fixed assets.

8 Verification Procedure for Assets Tagged and Recorded in the FAMS

1. The Fixed Asset Control Group, working with the DFAC, will review and monitor all asset purchases to verify that a complete asset record has been entered into the FAMS for all fixed assets and controlled items received.
2. The Fixed Asset Control Group will periodically produce and distribute a Posted Receiving Report to the DFAC as verification or notification that an item with a fixed asset commodity type has been entered as an FMS Receiver. The report will identify all items received in the FMS that have a commodity type flag set as a fixed asset item.
3. Audit database reports will compare entries from both systems to verify that the department has entered items in its FAMS based on FMS information. The DFAC will take appropriate action to clear any discrepancies.
4. If it is discovered that an asset for which there is no record of a capitalized or controlled asset acquisition has been placed in service, i.e., the asset was delivered directly to the custodial section rather than through the departmental receiving function, the DFAC will be notified. The DFAC will then complete a FA-1 and notify the appropriate departmental tagging personnel to locate and tag the asset.

9 Capitalization of Rolling Stock Procedure

1. In accordance with the procedure in Section 5 (Numbering and Tagging Fixed Assets) Fleet Management will perform the number assignment and FA-1 functions assigned to the DFAC for vehicle and rolling stock purchases.
2. The DVC of the acquiring department will perform the specific tasks normally assigned to the departmental tagging personnel and will be responsible for providing supplemental



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FA-1 information to the DFAC when the vehicle is placed in service. This might include a Closed Vehicle Work Order (with total cost, including make-ready) and/or a Unit Information Acceptance Form.

3. Monthly, the department will receive an electronic monthly vehicle file, which will include all new vehicle activity for the department and additional FA-1 information from the DVC, as appropriate, based on departmental and fleet procedures.
4. The DFAC will process and import the file into the FAMS by reviewing other FA-1 and funding source information to determine whether additional information needs to be added to the vehicle or rolling stock FAMS record. Such information might include the following:
 - Additional description information
 - The Ordinance Number or Council Motion Number, if available
 - Grant-related information, as appropriate

If additional information needs to be added to the FAMS record, the DFAC will forward the information to data entry person for entry into the FAMS.

10 Capitalization Procedure for Machinery and Equipment Purchased by Contract

The procedures for capitalizing machinery and equipment purchased by contract will follow the same steps as outlined in the acquisition by PO procedure in subsection 6 in this section **except** as follows:

1. The departmental Contract Administrator for the related contract will notify the DFAC, via a written Contract Capitalization Request, that a contract item has been received and accepted.
2. If responsibility for assigning FAI numbers and tagging has been delegated to remote receiving locations in the department, the Contract Administrator will also advise the receiving site that a contract item requires tagging.
3. In lieu of a separate form, the Contract Administrator can use an FA-1 to provide the required information and send it to the appropriate location (as above) with a simple cover note indicating this is a contract item that has been received and requires tagging and entry into the FAMS.
4. If no specific Contract Administrator has been assigned to the contract under which the capital equipment has been purchased, the department DPU or the Purchasing Single Point of Contact will be responsible for initiating the FA-1.



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5. The FA-1 submitted to the DFAC for capital equipment acquired by contract will contain the following information:
 - Date of receipt
 - Contract number (document reference number)
 - Item description
 - Quantity
 - Purchase cost
 - FMS expenditure object code
 - Funding source(s)
 - Organization
 - Location
6. The DFAC will then continue the capitalization process as outlined in the procedure in subsection 6 in this section. For contract purchases, the DFAC and/or the departmental tagging personnel will perform all the same tasks as they would for the acquisition of equipment by PO, as outlined in subsection 6, and as assigned to them in subsection 4.

11 Procedure for Recording Multiple Fixed Assets Acquired by a Single Purchase

1. The acquiring department DFAC (or the DVC, for rolling stock) will initiate an FA-1 for each asset included in the purchase.
2. The DFAC will enter separate asset costs in the FAMS for each asset acquired under a multiple unit purchase (including any allocated common costs).
3. An exception will occur for purchases of multiple items that qualify as asset systems or group assets, as defined in Section 3 (Multiple Unit Assets). These will be entered in a single asset record that includes the total cost and other data pertaining to the conglomeration of smaller items being combined into a single asset.
4. Each asset record will reflect the total calculated cost obtained by apportionment.



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12 Capital Leases

12.1 *Classifying Leases*

A lease will be classified and capitalized as a capital lease if it meets one or more of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains an option to purchase the leased property at a discounted price.
- The lease term is equal to or greater than 75% of the estimated economic life of the leased property.
- The present value of minimum lease payments equals or exceeds 100% of the fair value of the leased property less any investment tax credit retained by the lessor.

A lease that fails to meet any of the above criteria will be classified as an operating lease and recorded as an expense. Assets obtained through an operating lease will not be controlled utilizing the FAMS.

12.2 *Accounting for Capital Leases*

Equipment and real property acquired through capital leasing transactions, where the City is the lessee, will be considered to be owned by the City at the time the lease is signed. If a leased asset is capitalized, the asset will be

- recorded at an amount equal to the present value of the minimum lease payments, not to exceed the fair value of the asset,
- classified in the appropriate fixed asset fund category, as applicable, and
- depreciated based upon the City's normal depreciation methods in accordance with Section 6 (Depreciation).

The useful life of the asset will conform to the City's normal asset life policies as detailed in Section 4 (Fixed Asset Classification and Useful Lives), unless a) the lease term is equal to or greater than 75% of the estimated economic life of the leased property, or b) the present value of minimum lease payments equals or exceeds 100% of the fair value of the leased property, less any investment tax credit obtained by the lessor. In either of these cases, the useful life will be the term of the lease.

The following costs will be recorded for all capital leases:

- Leased asset cost
- Periodic interest expense on the related lease liability



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- Periodic depreciation expense based on the recorded cost of the leased asset
- Executory costs, such as insurance and maintenance

12.3 Assignment of Historical Cost

In instances where the leasing agreement involves numerous pieces of equipment, the department will allocate the aggregate cost associated with the contract to the individual pieces of equipment on a reasonable basis (if the cost is not directly determinable from the lease agreement).

The recommended basis of allocation will be the individual rental costs of the equipment as a component of the aggregate rental associated with the contract.

The City's Fixed Asset Management Program administrator and the Controller's Office must approve any departures from the recommended allocation base described above.

12.4 Lease Agreement Data Requirements

Data requirements will be the same as defined for all fixed asset subsidiary ledgers, to the extent that they apply to a lease agreement.

In addition, *Lessor Name*, *Contract Number*, *Council-Approval Reference*, *Starting Date*, and *Expiration Date* should be kept in the data system when the system includes these fields. If the data system does not include these fields, the information should be kept in the leasing department's appropriate file.

13 Grant Funded Assets

13.1 Federal and Grantor Agency Requirements

Fixed assets and controlled items acquired in whole or in part with grant funds will be controlled and accounted for in accordance with the applicable federal government Office of Management and Budget (OMB) circular, the requirements outlined in the *Uniform Requirements for Grants and Cooperative Agreements with State and Local Governments (Common Regulations)* as published in the *Code of Federal Regulations (CFR)*, and the specific requirements of the individual grantor agencies.



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13.2 Overview

As specified by the *Common Regulations*, property with a value **equal to or greater than \$5,000** that is acquired in whole or in part with federal or grant funds must be recorded by the City at acquisition. The following information must be included:

- Fixed asset number
- Vendor
- Acquisition date
- Asset location
- Description
- Total cost
- Asset condition
- Asset use
- Percentage of federal participation and dollar amount
- Federal grant description, including grant number
- Manufacturer serial and model numbers, stock number, or other identification number
- Date of disposal, sale price, or method used to determine fair market value where the City compensates an agency for its share
- Title ownership (City or federal government)

The City will be responsible for maintaining all grant funded equipment in good condition. Upon disposition, the City will use selling procedures, when appropriate, that encourage competitive pricing and result in the highest possible return.

13.3 Acquisition of Grant Funded Assets

Only those assets authorized by the program statute and regulations and the grant agreement will be purchased under a grant. If additional equipment and supplies will be necessary to complete a grant funded project, these costs will be recorded as part of the asset cost. However, the City department acquiring the grant funds must ensure that any supplies and equipment purchased to complete the project will be needed (i.e., equipment on hand cannot be used). The City will use competitive procurement practices to procure any supplies and equipment.



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13.4 Use of Grant Funded Assets

13.4.1 Real Property

Real property acquired with grant funds must be used for its original purpose for as long as it is needed. The property may be used for other purposes only with the prior approval of the granting agency.

Generally, approval will be given by the granting agency if the property is used for another federal project or a nonfederal project that has a purpose consistent with the authorizing grant legislation.

13.4.2 Equipment

Equipment acquired under a grant must also be used for its original purpose for as long as it is needed.

When no longer needed for the original purpose, grant funded equipment will be used for other projects (projects of the granting agency will be given first priority) currently or previously sponsored by the federal government.

13.5 Disposal of Grant Funded Assets

13.5.1 Real Property

If the City can no longer use grant funded real property, one of the following options will be exercised:

- The property will be sold and the federal agency paid its share of the proceeds according to matching or cost-sharing ratios.
- The property will be retained and the agency paid its share of the market value of the property.
- The title will be transferred to the federal agency, which will remit to the City its share of the market value of the property.
- The property will be disposed of as required by the particular terms of the grant.

13.5.2 Equipment

Grant program regulations regarding equipment dispositions will be followed. Generally, for federally funded grant equipment, the following guidelines apply:

- Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold, or otherwise disposed of with no further obligation to the awarding agency.



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- Items of equipment with a current per-unit fair market value in excess of \$5,000 may be retained or sold, and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from the sale by the awarding agency's share of the equipment.