

Asset Management Policy—Smyrna, Georgia

Purpose

The purpose of this policy is to provide guidance to staff for purchasing and maintaining equipment and facilities which will result in the greatest service to the citizens at the lowest cost. This policy covers capitalized and non-capitalized assets and applies to purchases made with both governmental and proprietary funds.

Capital Asset Criteria

A capital asset is defined as a financial resource meeting all of the following criteria:

1. It is tangible in nature
2. It has a useful life of greater than two years.
3. It is not a repair part of supply item
4. It has a value equal to, or greater than, the capitalization threshold of \$5,000 or is sensitive in nature. Sensitive items will not be capitalized or depreciated; however, these items will be tracked on the equipment list for tracking and location purposes. The following are items considered sensitive in nature: computers, cameras, fax machines, printers, video monitors, etc.

Best Practice

The Government Finance Officers Association (GFOA) recommends that state and local governments consider the following guidelines in establishing capitalization thresholds:

- Potentially capitalizable items should only be capitalized only if they have an estimated useful life of at least two years following the date of acquisition;
- Capitalization thresholds are best applied to individual items rather than to groups of similar items (e.g., desks and tables), unless the effect of doing so would be to eliminate a significant portion of total capital assets (e.g., books of a library district);
- In no case should a government establish a capitalization threshold of less than \$5,000 for any individual item;
- In establishing capitalization thresholds, governments that are recipients of federal awards should be aware of federal requirements that prevent the use of capitalization thresholds in excess of certain specified maximum amounts (i.e., currently \$5,000) for purposes of federal reimbursement; and
- Governments should exercise control over potentially capitalizable items that fall under the operative capitalization threshold.

Approved by the GFOA's Executive Board, February 24, 2006.

All assets capitalized under this policy shall be included in the financial statements issued by the City and in the annual external audit.

General Policy

Keeping an accurate record of the City's assets is important for a variety of reasons. Some of the most important reasons that the City needs to keep a good record of capital assets are: for financial statement information, insurable values, control and accountability, maintenance scheduling and cost analysis, estimating and accounting for depreciation, preparation of capital and operating budgets, and debt management.

- I. Each department head is responsible for all capital assets within their department. However, in order to ensure objective reporting of items, physical inventories should be performed by personnel having no direct responsibility (custody and receipt/issue authority) for assets subject to the item count. If it is not feasible to use such personnel for any part of the inventory, then those portions are, at least, to be tested and verified by a person with neither direct responsibility for that portion of the inventory nor supervised by the person directly responsible.
- II. An annual physical inventory of all capital assets shall be performed by each City Department. Each Department Head is responsible for ensuring an annual inventory of all capital assets is completed. Once the inventory is completed, a full report of the results must be sent to the Finance Department.
- III. Recording of Assets
 - a. Unless otherwise approved, all recordable assets must be recorded within 30 calendar days after receipt and acceptance of the asset. Donated assets shall be recorded at fair market value as determined by the Department Head or Finance Department. Fair market value may be defined as, but is not limited to, an average of document prices for equivalent items from three separate vendors.
 - b. For equipment purchases, title is considered to pass at the date the equipment is received. Similarly, for donated assets, title is considered to pass when the asset is available for the agency's use and when the agency assumes responsibility for maintaining the asset.
 - c. Constructed assets are transferred from the construction in progress account to the related building, improvements other than building, or equipment account when they become operational.
- IV. Acquisition of Asset
 - a. Departments making purchases of assets should follow Purchasing procedures to allow for the lowest-bid price on an asset while ensuring the asset is adequate for the purpose required. For procurements that will be made through the Purchasing Department, the acquiring department should enter a requisition which will be converted to a purchase order once the asset is ordered completing the purchasing process.
 - b. No asset shall be ordered for which there is no approved budget.
 - c. When the ordered asset is received by the acquiring Department, acknowledgement of the receipt is made within the accounting system and provided to Finance –

Accounts Payable. Once the invoice is received and matched to the receiving report, a payment is made. A receiving report should be generated on the date of receipt of the asset versus waiting until an invoice is issued.

- d. From the supporting documentation for the payment, assets falling into the appropriate line item asset category shall be entered into the asset system.
- e. Any Department acquiring an asset not following Purchasing procedures yet requiring tracking within the asset system shall complete and submit to Finance an Asset Change Form.

V. Transfer of Assets

- a. Assets should not be moved from the location of the acquiring department without completing an Asset Change Form. The Department Head should determine when an asset will better serve its purpose by transferring to another City department.
- b. When an asset needs to be transferred to another department, otherwise physically removed from a department, that department is responsible for notifying the Finance Department by submission of an asset change form. This form will notify the Finance department to remove the asset from the originating department's asset inventory records, so that department is no longer responsible for the asset.

Note: The Asset Change Form will not be needed for items initially costing less than \$5000 or sensitive in nature and otherwise did not meet the criteria for being entered into the asset system.

VI. Sale of Assets

- a. The City is interested in full realization of the value of goods it purchases. The City is aimed at making sure all surplus is disposed to the economic advantage of the City. Sale of capital assets and other surplus goods by a Department must be the highest, responsible bidder, and must be conducted by sealed bid or by auction.

VII. Disposal of Assets

- a. When an asset is disposed of, its value is removed from the financial balances reported and from asset reports; however, the asset record, including disposal information, remains on file in hardcopy form for the amount of time as designated by the City Clerk's Office, in Purchasing Manager's Office, after which time it is purged from the system according to general accepted accounting principles. This preserves an audit trail for disposed items, and facilitates departmental comparisons between actual of historical useful life information with useful life guidelines. Such comparisons permit a more precise definition of an asset's useful life than those provided by the Internal Revenue Service (IRS) or other guidelines initially used.
- b. A disposal action is appropriate only when certain conditions occur resulting in an asset no longer being in the possession of the agency. Assets no longer in use, but remain in the possession of the department, are considered surplus property and not a disposal.

The City Administrator will approve or disapprove the request for disposal of capital assets items with an original value over \$5,000. Please see City's "Policy for Disposal of Assets" Policy, for more information of disposing of Capital Assets.

Capital assets may be disposed of in any one of eight ways:

- Competitive sale, such as an auction
 - Trade-in
 - Abandonment/Retirement
 - Lost or stolen
 - Transfer
 - Cannibalization (taking parts and employing them for like uses within the department, such as is often the practice in computer or vehicle maintenance).
 - Casualty loss
 - Donation to a 501 (c3) non-profit organization
- c. The City should try to obtain the highest value out of the disposed item. If another City department does not need the item then it should be put up for auction or sealed bid. If item is not suitable for sale or does not meet reserve requirements, then it can be donated to a non-profit organization. Only when the asset is no longer in possession of the department, due to one of the seven reasons listed above is disposal action appropriate.
- d. All assets no longer in possession of the department, due to one of these seven qualifying conditions and after submission of all appropriate documentation to the Finance Department, will be removed from the master departmental asset file and considered disposed.
- e. Department management is responsible for reviewing disposal reports, evaluating causes and trends leading to disposals, and implementing procedures to more effectively manage and control disposals when the dispositions represent problems, inefficiencies, and/or incurrence of unnecessary cost.

In some cases, the Department Head will consider the asset junk. These items are usually damaged items judged unsafe or too costly to repair. These items will be thrown away.