

CITY OF WORCESTER, MASSACHUSETTS
Fixed Assets Administrative
Policies and Procedures Manual
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A. FIXED ASSET POLICY STATEMENT

Description:

A capitalized fixed asset is tangible and intangible property that the City can leverage as a resource in providing services to the residents and inhabitants of the City. A capitalized fixed asset includes land, infrastructure, buildings, furniture and fixtures, motor vehicles and equipment with a cost of \$50,000 or more and a useful life of more than two years. Capitalized fixed assets are acquired for use in normal operations and are not for resale. These assets are long-term in nature and are subject to depreciation.

Authority:

Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Report Standards applicable to all governmental agencies.

Guidelines:

According to the Governmental Accounting Standards Board, the classification of fixed assets depends upon the funds used to purchase them:

"A clear distinction should be made between proprietary fund fixed assets and governmental fund fixed assets. Fixed assets related to specific proprietary funds should be accounted for through those funds. All other fund assets of a governmental unit should be accounted for in governmental funds.

Assets purchased are recorded in their respective function. Depreciation of fixed assets should be recorded in the accounts of the function. Straight-line depreciation is the primary method used to record depreciation expense. Assets, exclusive of land and construction-in-progress, are depreciated resulting in accumulated depreciation and assets with a net cost. Assets purchased for over \$50,000 are capitalized for financial statement purposes. Capital assets with a value of between \$1,000 and \$50,000 are inventoried but are not capitalized for financial statement purposes.

According to Generally Accepted Accounting Principles, fixed assets should be recorded at historical cost or estimated historical costs. When purchasing a new asset, the cost is the amount paid for the asset. If it is a donated asset, the cost is the fair market value on the date donated. The fair market value is the estimated amount at which the asset would be exchanged between a willing buyer and willing seller when neither is forced into the exchange. Both parties should have knowledge of all facts and consider it an equitable exchange.

The amount capitalized includes the total purchase price, less any discounts. It also includes any payment required to place the asset in its intended state of operation. The land amount capitalized includes various costs: purchase price, legal and title fees, surveying fees, appraisal and negotiation fees, and damage payments. The building amount capitalized includes the following costs: purchase price, contract price or job order costs, and any other expenditure necessary to put a building or structure into its intended state of operation. Other expenditures may include the following: professional fees, damage claims, cost of fixtures, insurance premiums, and related costs incurred during the period of construction.

If using resources such as labor, materials and supplies from various City departments, then include them as part of the asset. Capitalize the costs as if outside sources were used.

Additions or improvements are capitalized if the total original cost of the asset is greater than \$50,000. The addition or improvement is expensed if the total original cost plus the addition or improvement still remains under \$50,000. Repairs, maintenance and replacement parts generally do not extend the life or increase the value of an asset and are generally not capitalized. Building improvements and major renovations maintained separately as part of the City's capital projects system are reviewed, accounted for, and capitalized separately by the Auditor's office.

If costs are incurred to keep the asset in its normal operating condition and the life of the asset is not extended, do not capitalize the costs. They are expensed instead. For example, engines on the DPW rolling stock are rebuilt regularly (i.e., every two years). This is an expected cost at the time of purchase. It does not extend the life of the asset longer than originally intended, so the costs are expensed. Another example is periodically resurfaced roads which are treated as a repair (the cost would not be capitalized) while adding new lane miles constitutes an addition (a cost that would be capitalized).

Capitalized fixed assets must be reconciled annually. The capitalized assets recorded on the fixed asset system will be balanced to the assets recorded on the general ledger. Any differences must be researched and resolved. The reconciliation must be documented and remain on file.

If a capitalized asset or inventory item is missing at the physical inventory, the Missing Asset Form is completed to document the reason for the missing asset. The responsible supervisor and the Fixed Asset Officer review this form. The City Auditor will periodically review items classified as missing assets. Every effort must be made to find the asset. All efforts must be documented and reviewed by management.

If any asset is stolen, a theft report must be completed. See Statement L for procedures to follow when a theft is reported.

It is recommended that a physical inventory of capitalized assets and inventory items be taken each time there is a change of management or supervisor with responsibility for fixed assets. If a physical inventory is taken, then the outgoing and incoming supervisor/manager should sign the inventory sheets. The signatures indicate they both know where the assets are located and that the count is accurate.

B. FIXED ASSET POLICY - BUILDINGS

Description:

Buildings are structures that are permanent in nature. Their useful life is for more than one year and are subject to depreciation.

Guidelines:

Buildings valued at over \$50,000 are capitalized. Those purchased at below \$50,000 are not capitalized but are inventoried.

Buildings are valued at the purchase price or construction cost. Cost should include all charges relating to the building (i.e., broker's fees, architect's fees, interest on construction, etc.). Permanently attached fixtures to the building (i.e., heating and ventilation systems) should be included in the cost of the building.

Donated buildings should be capitalized at the appraised fair market value at the time the building was donated.

If using in-house resources such as labor, materials, and supplies from various City departments to construct or add on to the building, the costs are to be included as part of the cost of the asset. These costs should be capitalized in the same manner as if outside sources were used.

If an addition is constructed, it is added to the fixed asset system as a component of the original building. The addition is added to the system as a separate asset, but tied to the original building with an auxiliary component number.

Buildings that are leased follow the same policy as other fixed assets. See Lease Agreements Policy Statement Q for details.

Maintenance expenses are incurred to keep assets in normal operating condition. These expenses are incurred to help maintain the original use of the building and not to extend the life of the building beyond the expected useful life at acquisition. Maintenance costs are expensed and not capitalized. The costs are charged to the capital expenditures code.

The legal description of all buildings must be recorded in the fixed asset record to identify these structures as City property.

Rehabilitation costs are incurred to restore or improve buildings or other capitalized assets acquired in a run-down condition. Property to be rehabilitated is usually purchased at a discounted price. The reason for the lower price is that considerable money will need to be spent to rehabilitate the asset before it can be put into service. The rehabilitation costs incurred become part of the cost of the asset.

Rehabilitation costs are added to the cost of the building or equipment and are capitalized according to the same criteria as other capitalized assets. Normally, the costs are incurred over an extended period. Care must be taken to distinguish between maintenance and rehabilitation costs over this period.

Buildings are included in the annual inventory of the controlling department. The inventory ensures that the controlling department has recorded the buildings in the fixed asset records.

The long-term construction costs of buildings are paid by Capital Improvements Funds. Costs are accumulated while the building is under construction. Annually, they are recorded in the construction in progress accounts which are part of the capital projects system. The controlling department should have a system of compiling and recording the costs.

When the department begins to move into the building, the building is considered a fixed asset. The costs will be reclassified from the construction in progress accounts to the fixed asset building account.

For buildings put into service after July 1, 1992, separate the costs of the parts of the buildings that will probably be replaced before the end of the life of the building (such as roofs, plumbing, electrical, etc.). Enter the separate parts as components. When the components need replacing, the amount to be written off is then readily available.

In most cases, the costs can be broken down into general construction, heating and air conditioning, electrical and plumbing. The general construction costs would be the base asset, with the remaining costs being the components. If the costs can be further broken down, enter those as components as needed.

If a major renovation takes place on a building, the original cost, less depreciation, of the part of the building being removed is eliminated from the accounts. The cost of the removal of the renovation should be expensed. The remaining costs of adding the renovation should be a component of the main building.

C. FIXED ASSET POLICY - LAND

Description:

Land is the real estate property held by the City. The land can be purchased or otherwise acquired. All land is entered on the fixed asset system, regardless of cost.

Purchased land should be entered at its cost. The cost includes its purchase price and any other charges necessary to purchase the land. The other charges include costs such as site preparation expenditures, professional fees, and legal claims directly attributable to the land acquisition. If land and building are acquired as a single parcel, the value of the land should be determined separately from the building and recorded in the land account.

Donated land should be capitalized at the appraised market value at the time of donation.

Land is entered to the fixed asset system when the City takes ownership of the land.

D. FIXED ASSET POLICY - EQUIPMENT

Description:

Equipment includes all tangible property other than land and buildings. Equipment will include such assets as computers (hardware and software), rolling stock (vehicles), machinery, other electronic and electrical devices and furnishings. Equipment can be purchased or otherwise acquired. All equipment with a useful life of at least two years and a cost in excess of \$1,000 is entered into the fixed asset system. However, only equipment with a cost over \$50,000 is capitalized for financial statement purposes.

The cost includes the equipment purchase price and any other charges necessary to purchase or install the equipment including the cost of labor, delivery, set-up, etc.

Donated equipment should be capitalized at the appraised market value at the time of donation. Equipment is entered in the fixed asset system when the City takes ownership of the equipment.

E. FIXED ASSET POLICY - INFRASTRUCTURE

Infrastructure or public domain fixed assets are generally immovable assets that include highways, bridges, sidewalks, drainage systems, and lighting systems. Infrastructure fixed assets are capitalized and depreciated in both governmental and proprietary funds under GASB 34.

F. FIXED ASSET POLICY - COMPONENT ASSETS

Description:

A component is defined to be a separate physical part of an asset that when combined with all the other physical components make up the whole asset. For purposes of the fixed asset system equipment category, only the following equipment items are considered to have components: (1) telephone systems, and (2) mainframe computers.

For example, a mainframe computer system might be made up of many components: a CPU, disk drives, terminals, etc. Components are entered as separate assets. In this example, the CPU would have the base asset number and the disk drives and terminals would have component asset numbers. The three items are linked together on the fixed asset system by the use of the base number within the 10-digit asset number. These component items can be purchased, transferred to another department and retired by component parts or as a whole as needed.

Component assets are capitalized when the total cost of the asset base and all components exceeds \$50,000.

G. FIXED ASSET POLICY - INVENTORY ITEMS

Description:

Inventory items are those items valued at \$1,000 through \$50,000 that have been determined to provide a cost benefit to the City if recorded on the fixed asset system (e.g., valuable, readily movable equipment (like computers)). They are recorded for inventory purposes, but will not be capitalized or depreciated in the City's fixed asset accounting system. This allows management to keep items on inventory, yet maintain a consistent capitalization limit Citywide for the comprehensive annual financial report (CAFR).

H. FIXED ASSET POLICY - ADDITIONS AND IMPROVEMENTS - LAND, BUILDINGS, EQUIPMENT AND INFRASTRUCTURE

Description:

Additions increase the physical size or operating capabilities of an asset through expansion or extension. They do not involve replacements. An improvement extends the useful life of an existing fixed asset, increases the normal rate of output, lowers an asset's operating cost or increases efficiency.

Additions and improvements to land, buildings, infrastructure and major capital equipment are currently accounted for in the City's construction in progress general ledger accounts:

<u>Account Series</u>	<u>General Description</u>
280	Code Enforcement
410	DPW
440	Sewers
450	Water
720	Parks

Account object codes used for these constructions in progress accounts are 93501 - 93503. Building, land improvements (including parks, golf courses, ball fields, etc.) and equipment improvements account activity is processed and input into the general ledger system by the appropriate department. The Fixed Asset Officer reviews and monitors all capital project activity and determines the appropriate amount and correct timing for capitalization into the City's fixed asset records system.

Additions and improvement costs are different from maintenance. Additions increase the physical size or operating capabilities of an asset. Improvements add to the useful life of an asset. Both additions and improvements add future benefits. Maintenance costs are incurred to keep the asset in normal operating condition (see Statement 0 for further definition).

When recording an addition or improvement, if part of the asset is removed, the cost of the removed part must also be removed from the fixed asset system. Use all available information to determine the original purchase cost of the part being removed. Write off that amount.

I. FIXED ASSET POLICY - SEPARATION OF DUTIES

Description:

Although the organization of each City department is unique, duties in the fixed asset system are distributed among several positions. This separation is necessary for adequate internal control of the fixed asset system. The following policies are recommended.

The Fixed Asset Officer, located within the City Auditor's office, has overall charge of the recordkeeping responsibilities for the fixed asset system. The Fixed Asset Officer works with the individual departments' fixed asset officers in maintaining the system.

The department's fixed asset officer has custodial and supervisory duties for the fixed asset system. He/she assigns both supervisory and clerical staff to control the assets. In general, the separation of duties should be:

Where possible, the departmental fixed asset officer or the assistant fixed asset officer makes the entries to the fixed asset system.

Another person in each department receives the assets and checks them in. This is usually an office supervisor, manager, or their designee. He/she routes the receiving tickets and prepares the paperwork necessary for entry into the fixed asset accounting system and sends it to the fixed asset officer for appropriate submission to the Auditor's office.

A person outside the above-mentioned positions performs the annual inventory. After inventory, this person researches any missing assets. The responsible supervisor and fixed asset officer approve the inventory sheets before the fixed asset officer makes changes to the status code.

It is recommended that each department assign the above duties at a minimum. This allows for a clear separation of duties among individuals responsible for fixed assets.

Not all departments have the staffing necessary for this clear separation of duties. If so, the duties are to be assigned to allow as much separation as possible. At a minimum, the person making entries to the fixed asset accounting system should not take the inventory and balance it. Even if an outside party performs the inventory, separation of duties is necessary.

Each department will document the position responsible for each fixed asset duty. This will be kept on file and updated as changes are made.

J. FIXED ASSETS POLICY - PHYSICAL INVENTORY

Description:

A physical inventory of capitalized fixed assets is taken at least annually to verify that capitalized assets physically located in a department are recorded in the fixed asset accounts. A physical inventory of inventory items is taken at the same time to ensure these items have been tracked properly.

Someone who does not have custody of the assets, nor responsibility for receiving, checking in, and recording the assets, takes the inventory. Refer to

the Separation of Duties Policy Statement for further explanation. See Appendix I for the questionnaire to be utilized during the physical inventory process.

If a capitalized asset or inventory item is missing at inventory, a Fixed Assets Report of Changes Form (Code 6) is completed to document the reason for the missing asset. The responsible supervisor and the fixed asset officer review this form. The City Auditor will periodically review items classified as missing assets. Every effort must be made to find the asset. All efforts must be documented and reviewed by management. Refer to the Missing Asset Policy Statement for further explanation (Statement L).

It is recommended that a physical inventory of capitalized assets and inventory items be taken each time there is a change at a management or supervisory level with responsibility for fixed assets. The out-going and incoming supervisor/manager should sign the inventory sheets. The signatures indicate they both know where the assets are located and that the count is accurate.

K. FIXED ASSET POLICY - LOST/MISSING ASSETS

Description:

Fixed assets are considered missing when an inventory is taken and assets on the fixed asset system are not found. This can occur because an asset is moved to another location, but the new location is not recorded on the system before inventory sheets are run or the asset could be lost.

This is different from an asset that is believed to be stolen. If any asset is missing due to a theft, a theft report must be completed and the proper authorities should be contacted (see Statement L).

A missing asset is generally noted during an inventory by comparing assets on hand to those on the fixed asset system. The fixed asset officer compares missing assets with those listed as physically present, but not found during the inventory.

If there are any missing assets after this process, the Fixed Assets Report of Changes Form is completed by the person responsible for the asset. The form is routed to the Auditor's office that reviews the forms on file and approves them. Once this form is approved, the individual departmental fixed asset officer will change the status code on the fixed asset system to missing (M) and the City Auditor's office will update the fixed asset records system appropriately.

A fixed asset report listing missing assets will be available upon request for/from the City Auditor. The listing will be sent to the person responsible for the asset who then will be required to document all the efforts made to find the missing assets. The City Auditor will make periodic reviews of fixed assets listed as missing. If the asset is found, it is noted on the printout and the status code is changed. After one year, if the asset is not found, it is retired as a lost asset. The frequency of reviews of the missing asset listing (after the physical inventory and before the next year's physical inventory) is left to the discretion of individual department management.

L. FIXED ASSET POLICY - THEFT OF A FIXED ASSET

Description:

If any City property has been stolen, the employee discovering the theft must report the theft to his/her supervisor. This is to be done as soon as possible, but no later than three days from the day of discovery. The supervisor is then to notify the head of the department immediately.

The head of the department must then notify the Worcester City Police within ten (10) days of being notified. The Worcester City Police will investigate the theft, if necessary. If the investigation reveals a violation of criminal laws, the Massachusetts State Police could be contacted for further action.

The department head should prepare a Fixed Assets Report of Changes Form (Code 5) and file a copy with the City Auditor's office and maintain one copy in his department files. If the fixed asset were not recovered, the asset would be retired from the fixed asset system. Also the general ledger will reflect an entry to reduce the fixed asset account.

M. FIXED ASSET POLICY - TRANSFERRING ASSETS

Description:

Assets are transferred when they are permanently moved from one department to another. If the move is temporary, it is treated as an asset on loan to another department.

A transfer should not be confused with a location change. A transfer takes place when the asset is moved from one department to another department. If the move is interdepartmental, it is a location change.

Any person making transfers to the system needs to determine true transfers versus location changes. The person making the asset transfer should complete a Fixed Assets Report of Changes Form (Code 2) and file one copy with the City Auditor's office and retain one copy in the departmental files.

N. FIXED ASSET POLICY - SURPLUS PROPERTY

Description:

Fixed assets become surplus property when they are no longer needed in the department. The department can move the assets classified as City surplus property (records maintained on the fixed asset system by the City Auditor) for sale or transfer. When relocating the asset, the fixed asset system status code must be changed. To accomplish this, the department should prepare a Fixed Assets Report of Changes Form (Code 3).

If it is feasible, the Purchasing Department will transfer City surplus property between departments at values determined to be reasonable. If other departments have no need for the asset, the Purchasing Department will attempt to sell the asset at the highest price possible. Offering the asset to the public through sealed competitive bids generally does this, or a way determined to be preferable.

O. FIXED ASSET POLICY - MAINTENANCE

Description:

Maintenance expenses are incurred to keep assets in normal operating condition. These expenses are incurred to help maintain the original use of the asset and do not extend the life of the asset beyond the expected useful life at acquisition.

Maintenance costs are expensed and not capitalized. The costs are charged to expenditure accounts (92000 accounts)

It is recommended that management review the maintenance account at least once a year to consider:

1. Replacing an asset with greater maintenance costs than other similar assets;
2. Reducing maintenance costs by signing a service contract;
3. Comparing the costs of a service contract with a repair-as-needed program;
4. Verify that costs were for maintenance rather than amounts that should be capitalized.

P. FIXED ASSET POLICY - REHABILITATION EXPENDITURES

Description:

Rehabilitation costs are incurred to restore or improve buildings or other capitalized assets acquired in a run-down condition. Property to be rehabilitated is usually purchased at a discounted price. The reason for the lower price is that considerable money will need to be spent to rehabilitate the asset before it can be put into service. The rehabilitation costs incurred become part of the cost of the asset.

Rehabilitation costs are added to the cost of the building or equipment and are capitalized according to the same criteria as other capitalized assets. Normally, the costs are incurred over an extended period. Care must be taken to distinguish between maintenance and rehabilitation costs over this period.

Q. FIXED ASSET POLICY - LEASE AGREEMENTS

Description:

A lease is an agreement between a lessor and a lessee that gives the lessee the right to use property, plant, or equipment for a specific period of time in return for stipulated cash payments. Leases are classified as either capital or operating.

Capital Leases:

According to the Financial Accounting Standards Board (FASB) Statement 13, "Accounting for Leases," a lease is considered a capital lease if it meets any one of the following criteria:

1. The lease transfers ownership of the property to the lessee by the end of the lease term.

2. The lease contains an option to purchase the lease property at a bargain price.

3. The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property (e.g., lease term six years; estimated life eight years).

4. The present value of rental and other minimum lease payments equals or exceeds 90 percent of the fair value of the leased property (e.g., future minimum lease payments \$9,000; fair value \$10,000).

The last two criteria are not applicable when the beginning of the lease term falls within the last quarter of the total estimated economic life of the leased property.

Accounting for the lease is dependent on whether the lease is accounted for in governmental funds or a proprietary fund. Leases directly related to and expected to be paid from proprietary funds should be included in the accounts of the respective fund. These are specific fund liabilities.

If a lease agreement is to be financed from governmental resources, it must be accounted for and reported on a basis consistent with governmental fund accounting principles. Lease accounting for proprietary funds should follow FASB Statement 13, as amended and interpreted, without modification. Transactions for proprietary fund capital leases are accounted for and reported entirely within the individual proprietary fund.

The amount to be recorded in the fixed asset system upon signing the lease is the lesser of the present value of the rental, and other minimum lease payments, or the fair value of the leased property. Capital leased assets must follow the same depreciation policy as similarly owned fixed assets in the fund. When depreciated, the period is restricted to the lease term rather than the life of the asset, unless the lease provides for transfer of title or includes a bargain purchase option. The periodic rental payments are treated as payments of the lease obligation and interest is recorded on the remaining balance of the obligation. This is similar to other types of debt payments.

Operating Lease:

To determine if a lease is operating, review the criteria above. If it does not meet any of the criteria, the lease is considered an operating lease. All costs incurred are expensed when recording operating lease activity. Neither an asset nor an obligation is recorded for operating leases. Accordingly, rental payments are recorded as rental expense in the operating statement. Note disclosure is required in the financial statements.

When leasing land, the lease is classified as an operating lease unless it provides for transfer of title or includes a bargain purchase option. If both land and buildings are leased, SFAS 13 specifies whether and how the elements are to be separated and which criteria are to be applied. When only part of a building is leased, SFAS 13 provides guidance in determining whether the fair value of that part of a building can be determined objectively.

R. FIXED ASSET POLICY - PROCEDURES/MAINTENANCE OF THE FIXED ASSET SYSTEM

Description:

Real and personal property represent the City's largest nonmonetary asset. It is essential that the integrity of these records be maintained to ensure accuracy and completeness. As stewards of a public trust, it is the responsibility of all City employees to maintain the City's assets and the obligation of every department head to render an accurate accounting of that trust. This responsibility is transferable and assumed by a succeeding department head and should be verified from one to the other.

Procedures:

The head of each department or agency shall submit an accounting of all the fixed assets entrusted to his or her custody in accordance with the procedures prescribed by the City Auditor which are as follows:

Each department shall have persons who will be responsible for the following duties and functions.

Departmental Fixed Asset Officer

Each department head is ultimately responsible for fixed assets in his or her department and should designate someone as a fixed asset officer who is responsible for control, use, and care of all fixed assets assigned to that department. Departmental fixed asset officers are to ensure that:

- a. Complete and accurate information is recorded on the supplied forms in the initial inventory taking and annual updates for newly acquired assets are complete and accurate and fully reported to the Fixed Asset Officer in the City Auditor's office.
- b. All information compiled on the forms is complete, accurate and prepared in accordance with the information categories on the form.
- c. All assets in excess of need are identified as surplus and are reported to the Fixed Asset Officer in the Auditor's office.
- d. All asset transfers and dispositions are handled in accordance with established City procedures (see Asset Accountability and Location below).
- e. That the initial fixed asset inventory is properly taken.

Departmental Assistant Fixed Asset Officer

Departmental fixed asset officers may designate an assistant fixed asset officer for each major area within their department (e.g., the DPW maintenance garage, a specific school within the public school system, a department's separately located offices, etc.). The assistant fixed asset officer should maintain control of area assets and furnish records and reports as required by the fixed asset officer. The assistant fixed asset officer's duties include:

- a. Diligent care, safeguarding, maintenance and proper use of all assets,
- b. Reporting any status change such as a change in location, accountability, acquisitions, losses, etc. to the fixed asset officer, and

c. Undertaking the initial fixed asset inventory count and the annual updates using the forms that have been provided.

2. A complete physical inventory should be taken each fiscal year.

3. A full accounting for changes in real and personal property costing \$50,000 or more during the most recent June 30 fiscal year end as follows:

Fixed assets are initially assigned to a specific department for accountability. Once recorded in the fixed asset management system, an asset will not be moved from the responsible department, location, building or area without prior approval of the departmental fixed asset officer. A change in accountability or location which places the asset under the jurisdiction of a different departmental assistant fixed asset officer should be documented on internal departmental records and reported to the Fixed Asset Officer in the City Auditor's office for recording in the fixed asset management system.

A trade-in or sale of assets requires prior approval from the departmental fixed asset officer and the Purchasing Department and in the case of assets funded by Federal or State contracts or grants, the appropriate grant administrator. Asset removal from a departmental fixed asset officer's jurisdiction without a custody change occurs:

a. If assets are loaned or sent out for repair for less than 90 days; in this case, the departmental fixed asset officer or the departmental assistant fixed asset officer should secure a receipt.

b. If assets are loaned or sent out for longer than 90 days, obtain a follow-up or replacement receipt for each 90-day period.

The departmental fixed asset officer should be notified at the beginning of each 90-day loan renewal period and when the asset is returned. Loans shall not be made for more than one year; instead, a formal fixed asset transfer should be made.

Lost or stolen assets must be immediately reported to the City Police. All thefts must also be reported to the City's Fixed Asset Officer. Obsolete or surplus assets must be reported by the responsible departmental fixed asset officer to the City's Fixed Asset Officer. The departmental fixed asset officer should ascertain if there are restrictions on the disposition of assets accumulated through funding by a Federal or State contract or grant.

4. A Fixed Assets Report of Changes Form (Code 2) signed by the appropriate department heads must be completed and processed through the City Auditor's office for all assets costing \$50,000 or more being transferred between departments. Transfers within a department (interdepartmental between divisions), must also be reported.

5. The Purchasing Department should be notified of assets no longer needed by a department. This provides for immediate availability of an item and prevents unnecessary purchases. The procedure for disposition of surplus property is as follows: the department declares the item(s) surplus by memo to the Purchasing Agent. Purchasing determines whether property should be transferred to another department, sold, scrapped or traded-in, and so advises the department declaring the surplus. Property remains in the custody of the department until removal is authorized.

6. The City of Worcester - Fixed Assets Report of Changes Form (Appendix II) will be utilized in the maintenance of the fixed asset system. Following is a listing of some of the transactions that will be reported on the form:

- Monthly fixed asset additions, (Code 1);
- Fixed asset transfer form, (Code 2):
- Fixed asset deletions, (Code 4);
- Missing fixed assets, (Code 6);
- Fixed asset theft, (Code 5); and
- Fixed asset surplus status, (Code 3).

The fixed asset management system, using the above transactional input, will produce the following system reports:

- Monthly and Annual Summary of Asset Additions and Deletions.
- Annual Summary of Assets Held by Funding Source.
- Annual Summary of Fixed Assets Held by Asset Category (type) by City Dept.
- Annual Summary of Fixed Assets Held (Citywide) by Asset Category (Type).
- Monthly/Weekly Edit Listing of all Fixed Asset Transactions categorized by transaction type.

Appendix II of this manual contains a Fixed Assets Report of Changes Form exemplar and instructions for the completion of the form.

7. The Fixed Asset Officer in the City Auditor's Office has sole responsibility for maintaining the computer and computer software portions of the Fixed Asset Management system.

S. FIXED ASSET POLICY - GLOSSARY

Acquisition - The point at which the City takes possession of an asset. This could be when it was purchased, or when it was donated.

Additions - Increases the physical size or operating capabilities of an asset through expansion or extension.

Capital Lease - A lease on property that allows a transfer of ownership to the City at the end of the lease term through a buyout clause.

Capitalize - The classification of an item to include it in the financial reports. Buildings and other assets are capitalized if the cost is greater than \$50,000. All land is capitalized.

Component - A separate physical part of an asset that when combined with all the other physical components make up the whole asset.

Controlling Department - The department that controls the asset. It decides where the asset resides and is responsible for the recording of the asset in the fixed asset system.

Departmental Fixed Asset Officer - The individual head of each City department or agency that is ultimately responsible for the fixed assets in his or her department.

Estimated Historical Cost - If the historical cost is not available, it is estimated.

Expense - If a purchase does not meet the capitalization criteria, the amount paid is charged to an account that recognizes the cost at the time of purchase.

Fair Market Value - Fair market value is the estimated amount at which the asset would be exchanged between a willing buyer and seller when neither is forced into the exchange. Both parties should have knowledge of all facts and consider it an equitable exchange.

Financial Accounting Standards Board (FASB) - The board that develops and oversees the accounting standards for all entities.

City Fixed Asset Officer - The person(s) in the City Auditor's office designated to have overall responsibility for maintaining the fixed asset system.

Generally Accepted Accounting Principles (GAAP) - Accounting guidelines developed by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB).

Governmental Accounting Standard Board (GASB) - The board that develops the accounting standards for governmental entities.

Governmental Funds - Those funds that finance most governmental functions of the City.

Historical Cost or Estimated Historical Cost - The cost of acquiring the asset or the amount paid for a similar asset in the past.

Improvement - Change to an existing asset that extends its useful life, increases the normal rate of output, lowers the operating cost or increases efficiency.

Infrastructure - Long lived capital assets that are normally stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure include roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems.

Inventory - The count of fixed assets. This is done to verify that assets physically located in an agency or department are recorded in the fixed asset accounts.

Inventory Items- Items valued at \$1,000 through \$50,000. They are recorded for inventory purposes, but are not capitalized or depreciated.

Lease - An agreement between a lessor and a lessee that gives the lessee the right to use property, plant, or equipment for a specific period of time in return for stipulated cash payments.

Maintenance Expenses - Expenses incurred to keep assets in normal operating condition. They help maintain the original use of the asset.

Missing Assets - Those assets not found on the premises, but not believed to be stolen.

Operating Lease - A lease agreement that does not include a purchase clause. It is expected that ownership will not transfer at the end of the lease term.

Proprietary Fund - Used to account for those activities that are similar to those often found in the private sector.

Rehabilitation Costs - Incurred to restore or improve buildings or other capitalized assets acquired in a run-down condition. The property is usually purchased at a discounted price.

Retirement - An asset is retired if it has been sold, traded in, scrapped, abandoned or in any way removed from service.

Separation of Duties - Duties are distributed among several positions for adequate internal controls.

City Surplus Policy - A function of the Purchasing Department that disposes of property no longer needed in any City department.

Tangible property - Property that is real; it can be handled or felt.

Theft - An item that is stolen.

Transfer - Permanently moving an item from one level of control to another. If the level of control does not change, it is a location change.

Useful Life - The number of years the asset is expected to be operational.

Department:

Location:

FIXED ASSET
INVENTORY OBSERVATION QUESTIONNAIRE

1. Have you reviewed the printed inventory instructions supplied by the fixed asset officer?
2. If so, have you maintained a copy for your files?
3. How was proper control exercised to ensure that all fixed assets were counted?
4. State the following dates and hours that the inventory:
 - Was started.
 - Was completed.
5. Who was in overall charge of the inventory taking (give name and title)?
6. Was he/she present during the entire time?
7. Were all items actually counted, if not, state what items and why?
8. How are fixed assets not belonging to the City accounted for in the inventory?
9. How were the following classes of items indicated so as to be properly accounted for?
 - Obsolete Assets
 - Excess/Surplus Assets
10. Were all physical counts:
 - a. Subject to adequate supervision?
 - b. Subject to dual control in which at least one person is independent of the department's responsible persons?
 - c. Subject to clerical checking when necessary?
11. Were there any materials or expendable items charged to property accounts and included in the inventory count?
12. Were the warehouse or storeroom items (excess asset storage area) orderly and included in the inventory count?
13. In your opinion, have all fixed assets been properly inventoried, and if not, why?
14. Other comments: (Reverse side if necessary)

FIXED ASSETS REPORT OF CHANGES
FORM AND INSTRUCTIONS

This form should be utilized for all fixed assets transactions as outlined in this manual. If you have any problems completing the Fixed Assets Report of Changes form please call the Fixed Asset Officer in the City Auditor's Office.

Department -

Division -

Location -

Prepared by -

Department Head Signature -

P.O. Number-

Dollar (\$) Amount -

Code -

Asset Category -

Transfers (In or Out) -