# IV. ACCOUNTING

**Effective Date: April 21, 2008**

## I. PROPERTY MANAGEMENT

Not-for-profit organizations should have policies and procedures which provide proper control and accountability for fixed assets acquired with state funds. Fixed assets include real property (buildings), moveable equipment, and vehicles. The governing board has responsibility for adopting a formal property management policy and approving the internal controls and operating procedures developed by management.

The formal policy adopted by the board should include features such as the following:

**1. Board approval is required for either all fixed asset acquisitions or for purchases in excess of a specified dollar amount, such as $5,000.**

**2. Management has to secure board approval before selling or disposing of fixed assets.**

**3. Equipment is defined, for example, as having a useful life of more than a year and an acquisition cost of $5000 or more per unit, so that immaterial amounts will be expensed and not accounted for through the fixed asset system.**

**4. Board approval is required for property management controls and procedures.**

A properly designed fixed asset system is important because it provides for effective property management and control as well as the safeguarding of investments. The system can also be useful in the management decision making process and the presentation of accurate financial statements.

### Real Property

Upon acquisition, title to real properly should normally vest in the organization subject to a condition that the entity shall use the property for the authorized purpose of the state funded project. When an entity determines that the property is no longer needed for the original state project, it should secure written approval from the state agency to use the property in conjunction with another state funded project.

If an organization determines that real property is no longer needed in either the original or another state funded project, the entity should request disposition instructions from the state agency which funded the original acquisition. The state agency may allow the organization to proceed with one of the following alternatives:

**1. Retain title to the real property after compensating the state agency in an amount computed by applying the state's percentage of participation in the original cost to the fair market value of the property.**

**2. Sell the property and compensate the state agency in an amount to be calculated by applying the agency's percentage of participation in the cost of the original purchase to the proceeds of the sale after deduction of any actual and reasonable selling and fixing-up expenses. When a grantee or subgrantee is directed to sell property, procedures shall be followed that provide for competition to the extent practicable and result in the highest possible return.**

**3. Transfer title to the state agency or to a designated third party. The entity would be paid an amount calculated by applying its percentage of participation in the purchase of the real property to the current fair market value of the property.**

### Equipment

Title to equipment acquired with state funds shall vest in the grantee organization. The equipment shall be used in the project for which it was originally acquired as long as needed regardless of whether the project continues to receive state funds. When it is determined that the equipment is no longer needed to support the project, written instructions should be obtained from the state agency as to disposition.

When acquiring replacement equipment, the grantee or subgrantee may use the equipment which is being replaced as a trade-in or sell the property and use the proceeds to off-set the cost of the replacement property, subject to the approval of the awarding state agency.

### Controls and Operating Procedures

Specific property management controls and procedures will vary from grantee to grantee; however, the following features should be applicable to most organizations.

**1. Detail property and equipment records should be maintained which accurately include:**

a) description and location of the equipment, serial number, acquisition date/cost, useful life and depreciation expense;

b) source/percentage of funding for the purchase and any restrictions as to use on disposition;

c) disposition data, including date of disposal and either sales price or the method used to determine fair market value (FMV).

**2. All fixed assets should be assigned a control number in the accounting records and each piece of moveable equipment should be tagged with a permanent identification number.**

**3. At least once every two years, a physical inventory of property and equipment should be taken and the results compared to accounting and fixed asset records. A process should be in place which ensures that discrepancies**

**are immediately brought to the attention of management and the governing board.**

**4. A control system should be in place to ensure adequate safeguards to prevent loss, damage, or theft of equipment. Also, the process must provide for full documentation and investigation of any losses or thefts.**

**5. Adequate maintenance procedures should be implemented to ensure that equipment is maintained in good condition.**

Procedures should be implemented which ensure that adequate insurance coverage is maintained on all real and personal property. A review of coverage amounts should be conducted on a periodic basis, preferably at least annually.