8.01 PURPOSE
To establish uniform standards governing the use and disposition of property acquired, in whole or in part, with federal funds or whose cost was charged to a project supported by a federal grant.

8.02 SCOPE
This policy applies to all recipients or subrecipients of federal funds through a pass-through entity. The policy is limited to those items whose acquisition cost is at least $5,000 per unit.

8.03 DEFINITIONS

Acquisition Cost
Net invoice unit price of the property including the cost of modifications, attachments, accessories, or auxiliary apparatus necessary to make the property usable for the purpose for which it was acquired. Other charges, such as the cost of installation, transportation, taxes, professional services, duty, or protective in-transit insurance can be included or excluded from the cost in accordance with generally accepted accounting principles.

Common Rule
49 CFR 18. Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, the federal regulation which governs all grants subject to this policy.

Federal Awarding Agency
Agency of the federal government that awards the grants. These agencies include, but are not limited to:

A. United States Department of Transportation (DOT)
   1. Federal Highway Administration (FHWA)
   2. Federal Transit Authority (FTA)
   3. Federal Aviation Administration (FAA)
   4. Federal Motor Carrier Safety Administration (FMCSA)
   5. National Highway Transportation Safety Administration (NHTSA)
   6. Federal Railroad Administration (FRA)

B. United States Department of the Interior (DOI)
   1. Bureau of Indian Affairs (BIA)
   2. Bureau of Land Management (BLM)
Grant

A sum of money given by one governmental entity to some other entity for the purpose of achieving some goal or supporting some program.

Pass-through Entity

A non-federal entity that provides a federal grant to a subrecipient to carry out a federal program.

Personal Property

Property which is non-financial in nature, which has a useful life of at least one year, and which is used in operations, except real property. Personal property is further classified as one of the following:

A. Tangible—having physical existence.

B. Intangible—having no physical existence, such as patents, software, inventions, and copyrights.

Real Property

Land, Buildings, Improvements, and related property rights, which are used in operations.

Recipient

A non-federal entity, such as ADOT, that expends federal awards received directly from a federal awarding agency to carry out a federal program.

Subrecipient

A non-federal entity that expends funds from a federal grant received from a pass-through entity to carry out a federal program. Examples would be Pima Association of Governments (PAG), Maricopa Association of Governments (MAG), as well as cities and towns, Metropolitan Planning Organizations (MPO's), and Councils of Government (COG's). An entity that receives funding from a subrecipient is also a subrecipient. (Note: The terms and conditions of the federal award are carried forward from the recipient to the subrecipient.)

8.04 PROCEDURES FOR ALL FEDERALLY-FUNDED PERSONAL PROPERTY

A. When statutory authority exists, title to property purchased in whole or part with federal funds shall be vested in the recipient or subrecipient upon acquisition. The recipient or subrecipient is, however, responsible for adherence to any applicable federal program compliance requirements (49 CFR 18 Section 32).

B. Use of Personal Property—federally-funded personal property may be used under the following conditions:

1. Property shall be used by the recipient or subrecipient in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by federal funds.

2. When no longer needed for the original program or project, the property may be used in other activities currently or previously supported by a federal agency.

3. The recipient or subrecipient shall make property available for use on other projects or programs currently or previously supported by the federal government, providing such use will not interfere with the work on the projects or programs for which it was originally acquired.
4. The recipient or subrecipient shall not use property acquired with grant funds to compete unfairly with private companies that provide equivalent services, unless specifically permitted or contemplated by federal statute.

5. When acquiring replacement property, the recipient or subrecipient may use the property to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property, subject to the approval of the awarding agency, as well as ADOT.

(Note: The federal awarding agency may be entitled to a share of the trade-in amount. Sections 8.04.1.1 and 8.04.1.2 show how this amount is calculated.)

6. For ADOT-owned property, any such transactions are subject to the rules for disposal of ADOT property described in ADOT Policy FIN-11.02, 'Control and Inventory of ADOT Property.'

C. Property obtained under a federal grant may be titled to, be in the physical custody of, and be carried on the financial statements of, a recipient or subrecipient. However, from the perspective of the federal awarding agency, ADOT is the agency to whom the federal agency has granted funds; as such, the federal awarding agency expects ADOT to ensure that federal regulations are followed.

D. Federal regulations permit states to impose their own requirements on their subrecipients. The State of Arizona does have more strict requirements, which apply to ADOT's subrecipients, as they apply to ADOT. Therefore, transactions, as described herein, may be subject to approval by ADOT.

E. In the normal course of business, ADOT may grant funds to a subrecipient (e.g. Maricopa Association of Governments, or MAG), which in turn grants them to its own subrecipient (e.g. a city or town). When this additional granting occurs, ADOT expects that ADOT's subrecipient will ensure compliance with all federal and state requirements, and further expects that ADOT's subrecipient (MAG, in this example) will handle all communications with its subrecipient, including, but not limited to:

1. The gathering of information to complete the annual inventory, as described in Section 8.06 of this policy, 'Inventorying Federally-Funded Property Owned by Subrecipients.'

2. All rules governing the disposition of federally-funded property, as described in Section 8.07 of this policy, 'Disposition of Federally-Funded Property Owned by Subrecipients.'

F. All federally-funded property, regardless of whether title is held by ADOT or by a subrecipient, is subject to the provisions of 49 CFR 19, also known as the Common Rule.

G. Property management requirements for federally-funded personal property include:

1. Maintain property records that contain:
   a. description of property
   b. vendor
   c. model
   d. manufacturer
   e. serial number
f. name of title holder  
g. acquisition date  
h. cost of property  
i. accumulated depreciation  
j. net book value  
k. federal awarding agency  
l. percentage of federal participation  
m. percentage of recipient or subrecipient participation  
n. location, use, and condition of property  
o. date of disposal and sale price or trade-in value  
p. contact person, with phone number

2. An annual physical inventory, which includes a report of all assets purchased in whole, or in part, with funds from the federal awarding agency when required by that agency. For property owned by ADOT, the inventory must reconcile to the financial statements as of the end of ADOT’s fiscal year (June 30). Guidelines for inventorying property owned by subrecipients are discussed in Section 8.06, "Inventorying Federally-Funded Property Owned by Subrecipients." In either case, the inventory is to be submitted to the federal awarding agency by October 31.

3. A control system to prevent loss, damage, or theft.

4. Adequate maintenance procedures.

5. Sales procedures (if authorized or required to sell property) which ensure the highest possible return.

H. Disposition of Personal Property—When original or replacement equipment is no longer needed for the original program or project, or for other activities currently or previously supported by a federal agency, the property may be sold, with the federal awarding agency having the right to a share of the proceeds. Examples of how this share is calculated are shown in Sections 8.04.I.1 and 8.04.I.2 of this policy.

I. Federal Awarding Agency’s Share of Sale Proceeds: When a recipient or subrecipient sells, by any means (e.g. trade-in, auction, etc.), property purchased with federal funds, the federal awarding agency is entitled to a share of the proceeds, calculated using one of the following methods:

1. The federal awarding agency has the right to a calculated amount:

   Current market value
   Or
   proceeds from sale
   (including trade-in)
   X
   Awarding agency's share
   (federal participation %)
   of the equipment

If the grant agreement calls for the recipient or subrecipient to fund a percentage of the purchase price, that purchase price is calculated net of the trade-in amount, regardless of how much, if any, of the trade-in amount the federal awarding agency is entitled to.

Example: The following facts are assumed:

FIN-11.08
o Purchase price of replacement property—$200,000
o Trade-in allowance provided by vendor—$20,000
o Net invoice price—$180,000
o Percent of new property to be funded by subrecipient—20%
o Percent of traded-in property which was funded by federal awarding agency—85%

In this example:

• Amount of trade-in allowance to federal awarding agency—$17,000 ($20,000*85% federal share on traded-in property)
• Amount of trade-in allowance to subrecipient—$3,000 ($20,000 less $17,000)
• Amount of purchase of new property funded by subrecipient—$36,000 ($180,000*20% local share)
• Amount of cash outlay by recipient or subrecipient—$33,000 ($36,000 less $3,000)

2. Should the property include an attachment not eligible for federal participation, the trade-in allowance will be pro-rated between the original purchase and the attachment based on their relative costs. It is the responsibility of the recipient or subrecipient to provide documentation of these costs.

Example: The following facts are assumed:

o Purchase price of replacement property—$200,000
o Trade-in allowance provided by vendor—$20,000
o Net invoice price—$180,000
o Percent of new property to be funded by subrecipient—20%
o Purchase price of federally-funded traded-in property—$90,000
o Purchase price of subrecipient-funded attachment, not eligible for federal participation—$10,000
o Total cost of traded-in property—$100,000
o Percent of traded-in property allocated to subrecipient-funded attachment—10% ($10,000/$100,000)
  o Percent of traded-in property which was funded by federal awarding agency (before accounting for attachment)—85%

In this example:

  o Amount of trade-in allowance directly allocated to subrecipient—$2,000 ($20,000*10% not eligible for federal participation)
  o Amount of trade-in allowance allocated to original purchase—$18,000 ($20,000 less $2,000)
  o Amount of remaining trade-in allowance to federal awarding agency—$15,300 ($18,000*85% federal share on traded-in property)
  o Amount of regaining trade-in allowance to subrecipient—$2,700 ($18,000 less $15,300)
  o Total trade-in allowance to subrecipient—$4,700 ($2,000 plus $2,700)
FIN-11.08 FEDERAL PROPERTY MANAGEMENT STANDARDS

Effective: October 18, 2010
Transmittal: 2010 - October
Supersedes: FIN-11.08 (1/28/10)

- Amount of purchase of new property funded by subrecipient—$36,000 ($180,000*20% local participation on new property)
- Amount of cash outlay by subrecipient—$31,300 ($36,000 less $4,700)

3. If appropriate disposition action is not taken by the recipient/subrecipient of the equipment, the federal awarding agency may direct the action to be taken.

J. Salvage Credits—Any proceeds received from the sale of salvage or scrap material are to be credited to the project to which the material was originally charged, or to a similar project.

8.05 PROCEDURES FOR ALL FEDERALLY-FUNDED REAL PROPERTY

A. Title to real property under a grant will vest, upon acquisition, in the recipient or subrecipient, as applicable. The recipient or subrecipient is, however, responsible for adherence to any applicable federal program compliance requirements under the Code of Federal Regulations (CFR) 49 CFR 13 Section 31.

B. Real property will be used for the originally-authorized purposes for as long as is needed for those purposes, and the recipient or subrecipient shall not dispose of or encumber its title or other interests.

C. When real property is no longer needed for the originally-authorized purpose, the subrecipient will notify ADOT, in writing, of its intentions regarding the property. One of the following options is to be selected:

1. Retention of title, after compensating the awarding agency an amount computed by multiplying the awarding agency’s percentage of participation by the fair market value of the property. If real property acquired with federal funds is disposed of and replaced with real property under the same program, the net proceeds from the disposition may be used as an offset to the cost of the replacement property.

2. Sale of property, with the awarding agency being compensated in an amount equal to the awarding agency’s percentage of participation by the sales price, after reducing said price by actual and reasonable selling and fix-up expenses. Procedures shall be in place to provide for as competitive a sales process as practicable, with the intent of realizing the highest possible return.

(Note: Examples of how to calculate the federal awarding agency’s share of the sales proceeds are found in Sections 8.04.I.1 and 8.04.I.2 of this policy)

3. Transfer of title to the awarding agency, with the recipient or subrecipient being compensated in an amount calculated by multiplying the recipient’s or subrecipient’s percentage of participation by the fair market value of the property.

8.06 INVENTORYING FEDERALLY-FUNDED PROPERTY OWNED BY SUBRECIPIENTS

When required by the federal awarding agency, an annual inventory is submitted of all assets purchased, in whole or in part, with federal funds, regardless of whether or not the property is in ADOT’s physical custody or is carried on ADOT’s financial statements. For property owned either by ADOT’s subrecipients (e.g. MAG), or a subrecipient’s subrecipients (e.g. a city or town), the following rules must be followed.

A. The inventory from all subrecipients must include all information described in 8.04.G.1 of this policy.
B. The inventory must reconcile to the financial statements as of the end of the entity's fiscal year (generally June 30).

C. The inventory must be submitted by ADOT's subrecipient (e.g. MAG) to the ADOT Fixed Assets Manager by October 31.

8.07 DISPOSITION OF FEDERALLY-FUNDED PROPERTY OWNED BY SUBRECIPIENTS

A. When federally-funded property is removed from service, voluntarily or otherwise, all parties involved must adhere to both federal and State of Arizona requirements. While federal requirements apply primarily to capital assets, those assets costing at least $5,000 per unit, the State of Arizona has more strict requirements, both in terms of the processes to be followed and the fact that the State's requirements apply to all property, not just property costing at least $5,000 per unit.

B. No property is to be transferred to another entity, removed from the physical custody of the subrecipient, or deleted from the subrecipient's financial records without written approval from the ADOT Fixed Assets Manager. This approval will be communicated through ADOT's subrecipient (e.g. MAG).

C. When property has been disposed of, it is the responsibility of the subrecipient to make sure the property is not included in the next inventory forwarded to ADOT, as described in Section 8.06 of this policy.

D. When the subrecipient has received its funding from ADOT's subrecipient (e.g. a city receiving funding from MAG), the flow of communication, and any required documentation, is as follows. All of this communication must be in writing.

1. The subrecipient (e.g. city) will inform MAG.
2. MAG will inform the ADOT Fixed Assets Manager.
3. The ADOT Fixed Assets Manager will inform MAG of the approval and of any additional required steps.
4. MAG will inform the subrecipient (e.g. city).

E. The following are requirements which are unique to the various categories of disposition:

1. **MISSING/STOLEN**—The subrecipient must obtain a police report from a local law enforcement agency.

2. **ACCIDENTAL DESTRUCTION**—The subrecipient must provide details about the destroyed property.

3. **DONATION**—Approval of both the federal awarding agency and ADOT are required prior to any donation.

4. **SURPLUS**—When property obtained under a federal grant is no longer needed for the purpose for which it was obtained, the property may be used in other activities currently or previously supported by a federal agency. When the subrecipient has determined that no such use is available, the property may be removed from service ('surplus'). Approval of both the federal awarding agency and ADOT are required.

5. **CANNIBALIZATION/ON-SITE DESTRUCTION**—When it is determined that federally-funded property has value as a component of other property ('cannibalization') or if it is
determined that the most effective way to dispose of such property is to destroy it on-site, an email, letter, or memorandum must be submitted and forwarded to the ADOT Fixed Assets Manager. This email, letter, or memorandum must contain the property's description, pictures of the property, and the reason for the request.

6. TRADE-IN/SELLING WITH REPLACEMENT—Trading in federally-funded property as partial payment on replacement property, or selling, may be done with approval of both the federal awarding agency and ADOT. The subrecipient must send an email, letter, or memorandum; this email or memorandum must include a complete description of the item(s) to be traded, a complete description of the item(s) to be purchased, a copy of the vendor quote which specifies price, trade-in amount, and net cost, and the reason for the request. No purchase order should be placed for replacement equipment without affirmative approval of the ADOT Fixed Assets Manager. For selling, the subrecipient must prepare an email, letter, or memorandum including the same information as for a trade-in, except that the manner of the sale is to be specified. The federal awarding agency is entitled to a share of the proceeds per the examples shown in Sections 8.04.1.1 and 8.04.1.2 of this policy, as applicable.

7. TRADE-IN/SELLING WITHOUT REPLACEMENT—if a subrecipient wants to sell federally-funded property without intending to obtain replacement within the next funding cycle, the subrecipient may do so. However, the federal awarding agency is still entitled to its share of the proceeds, per the examples shown in Sections 8.04.1.1 and 8.04.1.2 of this policy, as applicable. The forwarding of this share is administered using either of the following methods:

   a. The subrecipient forwards the funds to the entity from which it received funds for the original purchase. If a city or town is selling the property, the funds would be forwarded to the subrecipient (in this example, MAG, although it would apply equally to any subrecipient). In this example, or if MAG sells the property, MAG will account for the funds internally and make adjustments to the current or future year distribution from the federal awarding agency.

   b. The subrecipient notifies the entity from which it received funds for the original purchase (again, either MAG or ADOT, as applicable). Both the subrecipient and (in this example) MAG will track the funds, with the intent of properly applying the funds to a purchase of replacement property made at some future date.

F. SALVAGE CREDITS—if any proceeds are received from the sale of salvage or scrap material, the federal awarding agency is entitled to a share of these proceeds, as calculated in the examples shown in Sections 8.04.1.1 and 8.04.1.2 of this policy.

8.08 SUPPLIES

Title to supplies acquired under a grant will vest, upon acquisition, in the recipient or subrecipient as applicable. If, after termination or completion of the award, there is a residual inventory of unused supplies whose fair market value exceeds $5,000, and if the supplies are not needed for any other federally-sponsored programs or projects, the recipient or subrecipient shall compensate the awarding agency for its share.

8.09 COPYRIGHTS

The awarding agency reserves a royalty-free, non-exclusive, and irrevocable license to reproduce, publish, or otherwise use, and to authorize others to use, for federal government purposes:
A. The copyright in any work, such as a book, publication, or other copyrightable material developed under a grant, or contract under a grant.

B. Any rights of copyright to which a recipient, subrecipient, or a contractor purchases ownership with grant support.

8.10 PATENTS

The inventor of a patentable invention developed under a federally-funded grant retains rights to the invention. All contracts initiated by any pass-through entity or subrecipient must include the following clause, suitably modified to identify the parties, "The subrecipient or contractor will retain all rights provided for the State in this clause, and the State will not, as part of the consideration for awarding the subrecipient or contract, obtain rights in the subrecipient's or contractor's subject inventions (37 CFR Part 401).

8.11 CONTACT INFORMATION

The ADOT Fixed Assets unit may be contacted at:

206 S. 17th Avenue, Mail Drop 203B
Phoenix, AZ 85007
(602) 712-8028 (manager)
(602) 712-6592
Email: Fixedassets@azdot.gov

8.12 CORRESPONDING POLICIES

FIN-11.02 Control and Inventory of ADOT Property

8.13 CORRESPONDING FEDERAL REGULATIONS

37 CFR 401 Rights to Inventions Made by Nonprofit Organizations and Small Business Firms under Government Grants, Contracts, and Cooperative Agreements.

49 CFR 18 Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (also known as the Common Rule).