Fixed Assets Accounting Policy & Procedure

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01. Policy Statement

The purpose of this policy is to set forth the guidelines for the physical and reporting control of the University's assets, including accountability over the assets, meeting financial reporting needs, and generating asset management information.

02. Reason for Policy

This document is intended to describe the standard policies required for recording new and existing assets, changes in assets and the methodology of record keeping. In addition, it is intended to provide steps to assist university personnel in the safeguarding, accounting for and disposing of university assets. Legal responsibilities require that the university accurately record and account for capital assets on a regular basis. Because each department engages in the acquisition, transfer, disposal, and use of capital equipment, this policy sets forth the roles and responsibilities in regard to capital assets.

03. Roles and Responsibilities

The major responsibilities each party has in connection with the Capital Assets Policy & Procedures are as follows:

The Controller’s Office of Finance and Planning is responsible for the establishment and maintenance of an adequate fixed asset accounting system that allows for the proper presentation of plant assets in the financial statements and the overall safeguarding of fixed assets.

The Assistant Controller- Accounting and Reporting is responsible for ensuring the fixed asset accounting system is being properly maintained, including the identification of capital assets, accurate use of codes, determination of useful lives, reconciliation to the general ledger, and financial reporting.

The Fixed Asset Coordinator reports to the Assistant Controller- Accounting and Reporting and is responsible for:

1. Effective administration and maintenance of the property accountability and control system (Banner Fixed Asset Module);
2. Providing the Assistant Controller with the necessary documentation to review assets invoiced as capital assets (O-tags and D-tags) for final determination as a fixed asset;
3. The proper tagging of all movable equipment;
4. Preparing an annual listing of all movable equipment;
5. Providing department heads with current records of the property for which they are responsible;
6. Joint physical inventories taken on an annual basis verifying the existence and condition of all capital assets to ensure the accuracy of university accounting records;
7. Updating the fixed assets inventory based on inspection reports and notifying the Assistant Controller regarding any inventory changes;
8. Evaluating loss, damage, destruction, disposal, theft, trade-ins, sale, and/or transfer of University assets and providing recommendations with regard to the disposition of these assets;
9. Review and posting of depreciation through the Fixed Asset Module on a monthly basis;
10. Reconciliation of the fiscal year additions in the Fixed Asset Module to the general ledger completed in a timely basis;
**Purchasing/Accounts Payable** ensures account codes are classified correctly for capital assets on purchase requisitions and invoices.

**All Department Heads** are responsible for:

1. Reading and understanding the Fixed Assets Policy:
2. Maintaining current inventory records for all in-use fixed assets within their assigned department;
3. Assuring property is given proper care and protection and is used for official purposes only;
4. Ensuring that University property is used only in the conduct of official University business;
5. Notifying the Fixed Assets Coordinator of any changes in the index coding of an asset;
6. Notifying the Coordinator whenever fixed assets are transferred/acquired, sold, donated, destroyed, stolen, lost or otherwise disposed of by using the Property Movement Form found on the Finance and Planning website;
7. Identifying and reporting to the Coordinator along any surplus property which is useable but not needed in his/her area, or which is beyond economic repair and therefore to be disposed of;
8. Assisting in taking physical inventories.

### 04. Capitalization Policy

A capitalized fixed asset is property, such as equipment, buildings and land, with a cost or value equal to or greater than **$2,000** at the date of acquisition, effective July 1, 2007, and an expected useful life of **more than one year**. Capitalized fixed assets are acquired for the use in normal operations and are not for resale. All capitalized fixed assets are entered into the Banner Fixed Assets Module for inventory and financial reporting purposes.

Assets costing below $2,000 are expensed in the fiscal year of purchase and are not capitalized nor maintained through the Banner Fixed Assets Module.

The only exception allowable is for the capitalization of low cost equipment for the initial outfitting of a tangible capital asset or operational unit, or an expansion or renovation to either. Equipment for this treatment should be budgeted and charged to the capital project as equipment.

Costs incurred to keep a fixed asset in its normal operating condition that do not extend the original useful life of the asset or increase the asset's future service potential are not capitalized. These costs are expensed as repairs or maintenance.

### 05. Classifications of Capital Fixed Assets

Capital fixed assets are items that are:

1) permanent in nature, tangible durable (economic useful life greater than one year);
2) held for purposes other than investment or resale; and
3) have a cost which equals or exceeds certain thresholds established by the University in accordance with federal guidelines.

The types of capital fixed assets: equipment (both moveable and fixed), land, land improvements, buildings, building improvements, lease improvements, technology equipment and infrastructure.
Equipment consists of property that does not lose its identity when removed from its location and is not changed materially or expended in use. Subclasses in this account include computer equipment, audio visual equipment, office equipment, athletic equipment, recreational equipment, lab and research equipment, appliances, medical equipment, food service equipment, buildings and ground equipment, heavy equipment, musical instruments, furniture, and fixtures.

Moveable Equipment is not permanently affixed to or part of a building. Some moveable equipment consists of more than one component (e.g., a computer, keyboard, mouse, and monitor). The assembled components may be considered one item and be recorded as a single capital asset. Component items that form one working equipment system are combined for capitalization purposes. The “system” definition applies to computer configurations, AV equipment and scientific equipment. Additions to equipment that become either component parts or permanently connected to existing equipment items are also defined as equipment and should be capitalized, regardless of cost.

Fixed Equipment is permanently affixed to a building but is separate from the building itself. Examples of fixed equipment are light fixtures, wall to wall carpeting, water fountains, fire control apparatus, fume hoods, auditorium and fixed classroom seats, and built-in display cabinets.

Equipment Purchased During New Construction / Renovations – The equipment must be non-expendable, tangible personal property having an economic useful life of more than one year. During the normal course of business, these items would be expensed solely because they did not meet the University’s $2,000 threshold. The only exception allowable is for the capitalization of low cost equipment for the initial outfitting of a tangible capital asset or operational unit, or an expansion or renovation to either. Equipment for this treatment should be budgeted and charged on the capital project as moveable equipment. Expenditures for non-capital items that do not meet these requirements should be expensed. Movable equipment capitalized as part of a major new construction renovation or renovation project shall be recorded in the fixed asset module as one asset with the appropriate useful life assigned.

Land is the solid part of the earth's surface whether improved or unimproved. The land account should include all land purchased, leased, donated, or otherwise acquired by the University. Purchased land should be carried on the records at cost. Donated land should be recorded at the appraised market value of the land at the time of its donation.

Land Improvements include excavation, fill and grading, removal, relocation, or reconstruction of property of others such as railroads, and telephone and power lines, and the construction of retaining walls.

Buildings are roofed structures used for the permanent or temporary shelter of persons, animals, plants, or equipment. The buildings account includes the value of all buildings at purchase price or construction cost by campus location. When buildings are constructed, all identifiable direct costs are included in the valuation. Direct costs include labor, material, and professional services to construct the building, together with insurance, interest and other costs incurred during the period of construction to ready the building for its intended use.

Building Improvements are improvements made to existing buildings. Any renovation or alteration to an existing building that adds useful space to the structure or extends the facility’s useful life will be considered a capital asset. Conversely, improvements that do not add useful space to the structure, or extend the facility’s useful life will be considered maintenance and repair.
**Leasehold Improvements** are improvements to buildings leased to the University are capitalized if they meet capitalization standards applicable to such improvements on University-owned property.

**Technology Equipment** consists of long-lived capital assets that normally are technological in nature and are the basis of the University’s information/connectivity infrastructure. Technology equipment includes all hardware, software, and cabling associated with University-wide systems. Special guidelines for the capitalization of software are set forth in SOP 98-1 and are explained below (see section 06). Software licenses, maintenance fees, and donations to the University should not be capitalized.

**Infrastructure** consists of long-lived capital assets that normally are stationary in nature and normally can be preserved. Infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

**06. Valuation of Capitalized Equipment**

The valuation of equipment, whether purchased or fabricated, is based on unit cost. The total unit cost is determined by the sum of:

1) the cash disbursed (purchase price less applicable discounts plus applicable transportation and installation charges) for each unit;
2) the net book value of any assets given in exchange; and
3) the present value of any liability incurred.

If the equipment is acquired by gift, the valuation is the fair market value at the date of the gift, if determinable. Otherwise, an appraised value is used. If acquired by loan (usually from a grant or contract sponsor), the value assigned to the equipment by the sponsor will be used.

**07. Capitalization of Software**

Colleges and universities are required by the National Association of College and University Business Officers (NACUBO) to adopt the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 98.1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*.

**Internal Use Software** - For software to be considered for internal use, the software must meet the following tests - it must be acquired, internally developed or modified solely to meet the university’s internal needs, and during the software's development or modification, the university must not have a substantive plan to market the software externally to other organizations.

**Capitalization of Software Costs** - Software implementation generally involves three phases. These phases and their characteristics are as follows:

1. **Preliminary project phase** – Stage when conceptual formulation of alternatives, the evaluation of alternatives, the determination that the technology needed to achieve performance requirements exists, and the final selection from among the alternatives is made.
2. **Application development/implementation phase** - Design of chosen path including software configuration and software interfaces, coding, installation of computer hardware, testing, including parallel processing phase, employee and consultant travel expenses and consultant fees.
3. **Post-implementation/operation phase** - training and application maintenance activities incurred after phase two is complete.

Costs associated with the preliminary project and the post-implementation/operating phases should be expensed as incurred. Internal and external costs associated with the application development phase should be capitalized. Costs to develop or obtain software that allows for access or conversion of old data by new information systems should also be capitalized. General and administrative costs and overhead expenditures associated with software development should not be capitalized as costs of internal use software. Training costs are not internal-use software development costs and, if incurred during this stage, should be expensed as incurred.

**Capitalization of costs begin when the preliminary project phase is complete** and the university’s management has implicitly or explicitly authorized or commits to funding the software project with the intent it will be completed and used to perform its planned functions.

**Capitalization ceases no later than the time at which substantial testing is complete** and the software is ready for its intended purpose or rendered in service.

**Upgrades and Enhancements** - In order for costs of specified upgrades and enhancements to internal-use computer software to be capitalized, it must be probable that those expenditures will result in additional functionality -- that is, modifications to enable the software to perform tasks that it was previously incapable of performing. Upgrades and enhancements normally require new software specifications and may also require a change to all or part of the existing software specifications.

### 08. Gifts in Kind

Gifts of donated capital equipment that meet the $2,000 threshold and have a useful life greater than one year should be added to the fixed asset module to ensure an accurate accounting of all university owned equipment. If a department directly receives a gift in kind they should inform philanthropy immediately. Philanthropy will provide detailed information of gifts in kind to the Fixed Asset Coordinator upon receipt of the gift or through a monthly report submitted to the Assistant Controller, Accounting and Reporting.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, it is the policy of Pace University that gifts in kind of collectables (works of art, historical treasures, and similar assets), with the intention of being added to collections held for public exhibition, education, or research in furtherance of public service rather than financial gain, will be entered into the Fixed Asset Module with a nominal value one dollar in order to track them.

### 09. Other Capital Assets

**Library Books** – Library books are capitalized at a nominal amount of one dollar, per volume.

**Construction-In-Progress** (CIP) – CIP is the cost of buildings or other capital projects that are under construction as of the balance sheet date. CIP represents a temporary capitalization of labor, materials, and equipment of a construction project. When the constructed asset is substantially complete, costs in the CIP account are classified to one or more of the major asset categories and corresponding reductions must be made to the CIP account.
10. Acquisition of Capital Equipment

The acquisition of movable equipment starts with the creation of the purchase order. All orders for equipment must be submitted to the Purchasing Department via the Pace E-Procurement system through an online requisition. A purchase order number can only be obtained by submitting an online requisition. The purchase order should itemize the equipment being purchased and not be put into the E-Procurement system as one unit or as “as per quote #...” Purchases are subject to fund availability and budget limitations.

Special requirements do exist for certain types of movable equipment. For example, furniture purchases must conform to the standards developed by Purchasing and the Office of Interior Design. Additionally, Computer IT equipment purchases must be approved by DOIT. Please refer to Purchasing & Contracts Department policies and procedures under the Finance and Planning web page for more information.

The items ordered using the E-Procurement system are charged by the department to the appropriate capital expense code, which are listed below (11. Capital Budget Expense Codes). This capital expense code is tied to an asset code that automatically records the purchase as a capital asset.

All other purchases of equipment, that do not meet the capitalization threshold or do not have a useful life greater than one year, are expensed in the year of purchase and should be charged to the department’s supplies expense line.

When the item is received and the invoice is sent to Accounts Payable for processing, the capital expense code used to record the purchase in Banner Finance automatically generates an entry in the Banner Fixed Asset Module tagging the purchase as a potential capital asset. The invoice sent to Accounts Payable should clearly indicate the Purchase Order number it is attached to, particularly for items that arrive in various stages with separate invoices. The Assistant Controller-Accounting and Reporting reviews the new tags created in the Banner Fixed Asset Module and determines if the purchase should be capitalized as an asset.

11. Capital Budget Expense Codes

The acquiring department is responsible for assigning the appropriate University account number when making capital purchases. Individuals should be certain to use the correct account number in all circumstances. The capital expense codes tied to asset codes are:

<table>
<thead>
<tr>
<th>Capital Expense Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>E31801</td>
<td>Cap Bud Fixture Floor Covering</td>
</tr>
<tr>
<td>E31802</td>
<td>Cap Bud Furniture</td>
</tr>
<tr>
<td>E31803</td>
<td>Cap Bud Fixture Other</td>
</tr>
<tr>
<td>E31901</td>
<td>Cap Bud Security Monitors</td>
</tr>
<tr>
<td>E32201</td>
<td>Cap Bud Automobiles</td>
</tr>
<tr>
<td>E32301</td>
<td>Cap Bud Infra Connectivity</td>
</tr>
<tr>
<td>E32302</td>
<td>Cap Bud Infra Telecom Equip</td>
</tr>
<tr>
<td>E32401</td>
<td>Cap Bud Software</td>
</tr>
<tr>
<td>E32402</td>
<td>Cap Bud Software ERP SPARTA</td>
</tr>
<tr>
<td>E32601</td>
<td>Cap Bud Artwork</td>
</tr>
<tr>
<td>E33001</td>
<td>Cap Bud Computer Equipment</td>
</tr>
<tr>
<td>E33003</td>
<td>Cap Bud Technology Equipment</td>
</tr>
<tr>
<td>E33051</td>
<td>Cap Bud Audio Visual Equipment</td>
</tr>
<tr>
<td>E33101</td>
<td>Cap Bud Office Equipment</td>
</tr>
<tr>
<td>E33151</td>
<td>Cap Bud Athletic Equipment</td>
</tr>
<tr>
<td>E33201</td>
<td>Cap Bud Recreational Equipment</td>
</tr>
<tr>
<td>E33251</td>
<td>Cap Bud Lab and Research Equipment</td>
</tr>
<tr>
<td>E33301</td>
<td>Cap Bud Appliances</td>
</tr>
<tr>
<td>E33351</td>
<td>Cap Bud Medical Equipment</td>
</tr>
<tr>
<td>E33401</td>
<td>Cap Bud Food Service Equipment</td>
</tr>
<tr>
<td>E33451</td>
<td>Cap Bud Bldgs &amp; Grounds Equipment</td>
</tr>
<tr>
<td>E33501</td>
<td>Cap Bud Heavy Equipment</td>
</tr>
<tr>
<td>E33551</td>
<td>Cap Bud Musical Instruments</td>
</tr>
</tbody>
</table>
12. Ownership of Capitalized Equipment

Generally, the University owns all equipment purchased with University funds (includes restricted, unrestricted, gift, grant, contract, etc.) Title to the equipment purchased with federal funds vests in the University upon acquisition unless exceptions are noted in the specific contract or grant agreement. Although title to equipment purchased with federal funds generally vests in Pace, the government reserves the right to transfer title for capital equipment within 120 days of the termination of the contract or grant. In addition, capital equipment is usually subject to certain conditions on use and disposition. These rules can vary by federal agency.

13. Tagging Movable Equipment

Maintaining a positive identification of assets is the primary purpose of tagging. Tagging is important to:

- Provide an accurate method of identifying individual assets,
- Aid in the annual physical inventory,
- Control the location of all physical assets,
- Aid in the maintenance of fixed assets, and
- Provide a common ground of communication for both the Finance Office and the assets' users.

Generally, all fixed assets meeting the capitalization criteria are tagged when received by the department. When received, the campus department must notify the Fixed Assets Coordinator within 5 working days so that the tagging process can be completed.

Even though non-movable, capitalized assets are not tagged, the asset number is still recorded in the Fixed Assets Module but not physically attached to the asset. Tags for capitalized assets that are not tagged are placed in the Banner Fixed Asset Module listing the item description. A description of the property is recorded, including location details.

Assets not needing a tag are:

- Buildings
- Land
- Land Improvements
- Mainframe Software

When tagging movable equipment, consistently place asset tags in the same location on each similar type asset. If possible, the tags shall be accessible for viewing. Place the tag where the number can be seen easily and identified without disturbing the operation of the item, which will assist with the physical inventory.

**Caution:** Do not tag artwork, sensitive technical equipment, or other items where tagging will affect its function, value, or the ability to return it under warranty. A file for all untaggable capital assets must be maintained by the Fixed Assets Coordinator.
14. Depreciation Policy

Depreciation is the allocation of the total acquisition cost of a fixed asset over its estimated useful life.

Land, certain land improvements, construction-in-progress, inexhaustible works of art, historical treasures and similar assets are not depreciated. Land is considered to have an unlimited useful life and its salvage value is unlikely to be less than its acquisition cost. Certain land improvements may be considered to have an unlimited useful life and therefore are not to be depreciated.

Depreciation of fixed assets is computed on a straight-line basis over their estimated useful lives (capitalized cost divided by useful life) as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Improvements</td>
<td>10-20 years</td>
</tr>
<tr>
<td>Buildings</td>
<td>15-90 years</td>
</tr>
<tr>
<td>Building Improvements</td>
<td>10-80 years</td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>5-20 years</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>5-20 years</td>
</tr>
<tr>
<td>Software</td>
<td>3-5 years</td>
</tr>
<tr>
<td>Equipment</td>
<td>3-20 years</td>
</tr>
<tr>
<td>Vehicles</td>
<td>3-5 years</td>
</tr>
</tbody>
</table>

The Fixed Asset Coordinator, under the direction of the Assistant Controller, will assign a useful life based on the type of assets. The estimated useful life of a depreciable asset is the period over which services are expected to be rendered by the asset. No depreciation is computed in the year assets are acquired and a full year’s depreciation is computed in the year of disposition. Depreciation is calculated and recorded on a monthly basis for financial reporting purposes.

15. Proper Accounting of Capital Assets

The Fixed Asset Module requires periodic update (annual inventory) and maintenance, including reconciliation to the general ledger, to remain current and valuable.

To qualify as a capital asset, the item must meet the following requirements:

- It must be real property (no services, software, or publications)
- The unit cost should be $2,000 or more
- It has a useful life of at least one year
- It must be purchased for Pace University’s use
- In some cases, multiple items can be grouped together as multi-component asset, even though individually they would not qualify.

If a purchase qualifies as a capital, movable asset, then it is important to use one of the capital expense codes when purchasing capital equipment. The list of expense codes ([11. Capital Budget Expense Codes](#)) should be considered when purchasing a capital asset against a departmental budget:

In the event that an incorrect capital expense code is used when recording or processing the purchase of movable equipment, the Fixed Assets Coordinator should be notified of the error to ensure the correction is posted properly in the system. **Under no circumstances should a department try to correct these errors by posting a journal voucher directly into Banner.** All journal vouchers relating to fixed assets are subject to review and approval by the Assistant Controller- Accounting and Reporting.
If a purchase does not qualify as a capital asset, then the item should be expensed.

For all transactions involving non-movable capital asset purchases or additions, such as buildings, building renovations and improvements, and leasehold improvements, notification of changes impacting property, plant, and equipment should be sent to the Finance Office and the Fixed Asset Coordinator in order to maintain a complete system of record for financial reporting purposes.

16. Maintenance of Capital Assets

In order to maintain an adequate fixed asset accounting system that allows for overall safeguarding of fixed assets, the Fixed Asset Module requires periodic update (annual inventory) and maintenance to remain current and valuable. Additional fixed asset acquisitions, transfers, sale of surplus, disposal and corrections must be entered into the system in a timely manner (weekly). It is imperative that those responsible comply with this document to establish and maintain accurate fixed asset records.

17. Physical Inventory of Equipment

The Fixed Asset Coordinator will provide Department Heads with a listing of all reportable property by departmental area each year. Using the listing of reportable property as a basis, a joint inventory will be conducted by the Department Head and the Fixed Asset Coordinator. In addition, a physical inventory will be conducted bi-annually with a rotation to reach each campus (i.e., New York City, White Plains, Pleasantville, and Briarcliff) once every two years. Advance notice will be given to individual departments regarding specific dates. The purpose of a physical inventory is to verify the existence and condition of equipment and ensure the accuracy of university accounting records.

Discrepancies will be noted and investigated by the Fixed Asset Coordinator. The results of the inventory, including unresolved discrepancies, will be reported to the Controller.

Lost or stolen property must be reported as soon as the loss or theft is known. In the case of known or suspected theft, the Fixed Asset Coordinator and the Department Head must send a written report to the Controller and notify Campus Security.

18. Disposition of Assets – Movable Equipment

The Fixed Asset Coordinator is responsible for changing the status of records when the disposition of assets occurs. In general, surplus or obsolete equipment may be disposed of by transferring to another department, discarding/scraping, trading-in, donating, or selling the asset. When selling, donating, or disposing of assets, the department responsible for the asset must complete the Property Movement Form. This form should be sent to the Fixed Asset Coordinator notifying the Finance Office of the department’s disposition of the asset. The Finance Office will provide the approvals necessary to proceed with the disposition of the asset by sending a copy of the form back to the department with the appropriate signatures.

Certain disposals require special authorization. For example, employees are allowed to purchase equipment once the department has received prior approval of the sale of university property from the Fixed Asset Coordinator and Controller. The purchase price must be the greater of the fair market value or the net book value. The department must complete the Property Movement Form and follow the procedures stated above.
19. Movement of Assets – Movable Equipment

In the event an asset is to be moved from one location to another or from one department to another a Property Movement Form (located on the Finance and Planning website) must be completed and submitted to the Fixed Asset Coordinator. Under no circumstances should any University owned property be moved without prior consent.

Once the form has been received by the Fixed Asset Coordinator the Fixed Asset Module will be updated with the change. Submitting this form will ensure that inventory listings provided to the Departments are accurate.