Fixed Asset Accounting
Policies and Procedures
Index

Revised: September 2010

I. Introduction

A. Policy

Oral Roberts University acquires, records, inventories, maintains, and disposes of fixed assets. Each operating unit is responsible for following University procedures to achieve accurate fixed asset reporting.

B. Reason for Policy

This policy outlines how the University complies with government regulations and accounting industry standards, and how it supports accurate reporting of the physical assets used to conduct its mission.

C. Who Should Read This Policy

Building coordinators, employees involved with fixed asset acquisition and control as well as school, unit, and department administrators.

II. Responsibilities

Property (Fixed Assets) Accounting

1. Maintain and review the accounting records for accurate use of codes in recording capital asset transactions.
2. Maintain the Fixed Asset inventory database for the University.
3. Provide tags to affix to the University's Fixed Assets to monitor its use and location.
4. Review and approve disposition requests as long-lived assets are no longer needed to fulfill the mission of the University.
5. Schedule and conduct cycle counts with Unit representatives.
6. Reconcile the Fixed Asset register to the University's accounting records.

Restricted Accounting

1. Record gift-in-kind fixed assets.
2. Comply with donors' fixed asset restrictions.

General Accounting

1. Capitalize construction projects and renovations prior to the asset being placed in service.
2. Classify purchases properly as either an expense or to be capitalized.
3. Account for trade-ins of an existing asset.
4. Relieve assets from the University's general ledger when the asset is disposed.

Unit

1. Exercise stewardship responsibilities over assets under its control.
2. Report capital asset acquisitions in a timely fashion.
3. Consult with the University's Risk Management department to determine if additional insurance coverage is appropriate or required.
4. Conduct a cycle count with the Property Accounting department, verifying the existence and condition of all fixed assets under its control.
5. Communicate changes in asset locations to the Property Accounting department throughout the year.
6. Dispose of fixed assets properly, including donor fixed assets.

Tax Accounting

Meet reporting requirements based on information received from the units.

III. Principles

Overview

Oral Roberts University acquires fixed assets in pursuit of its mission. In line with federal regulation and good business practice, this policy sets forth the requirements for acquiring, disposing of, and accounting for these assets, as well as the definitions of different types of fixed assets.

To depreciate their value properly over time, amortizing over the useful life of the asset, physical assets must be recorded and capitalized in accordance with generally accepted accounting principles. If their value is below the capitalization threshold, the assets are neither added to the capital inventory, nor depreciated, but are fully expensed at the time of acquisition.

This policy also addresses other topics, such as how to handle software purchases, account for special collections and record the personal use of assets.

Stewardship

Units are principally responsible for stewardship of University assets under their control. Stewardship of fixed assets involves basic safeguarding and physical security, keeping assets in good working condition, and using them safely and properly. Units are advised to obtain theft and other coverage for their assets from Risk Management if additional coverage is required for compliance with sponsored project agreements.

IV. Procedures

A. Recording a Capital Asset

Because the University's accounting system does not provide all of the information needed to ensure adequate control of the University's fixed assets, the acquiring unit is responsible for reporting all capital asset acquisitions to the Property Accounting department.

Fixed assets can be added to the inventory in two ways. Most fixed assets are processed through the University's iPurchasing System. Purchases of capital assets should follow the University's Purchasing policies and procedures approved by the Board of Trustees.

> **Caution**: To maintain an accurate inventory, and provide accurate data for financial statements, fixed assets must be recorded in a timely manner. Generally, information on newly acquired assets should be communicated to Property Accounting within two weeks of receipt.

For all fixed asset purchases, units must provide the following equipment information in iPurchasing or on the Purchase Requisition Form:

- Cost center number of the unit responsible for the asset; the cost center may or may not be the same as the account numbers used for the acquisition
- Preparer's name and complete e-mail address
- Official building code where the asset is located, as designated by the Facilities Inventory
- Room number where the asset is located, as designated by the Facilities Inventory (*Note*: if the location is off-campus, provide an address and description of the location in the "Description" field)
- Brief description of the asset, including:
    - Bar code tag number
    - Manufacturer name
    - Model number, if available; use the manufacturer's designations
    - Serial number; if no serial number is provided, use "NSN" for no serial number
    - Acquisition cost/value and date acquired
    - Purchase order number, as assigned by the Purchasing Office (the purchase order number corresponds to other files, therefore, it must be recorded exactly)

- Leased assets are indicated with a "Y"; a blank field will default to "N," indicating that the asset was not leased

- Expiration dates for the lease; indicate the month and year of expiration

- Funding source; specifically, the account number(s) used for the acquisition of the item, and the amount charged to each account

- Condition code

- Gifts-in-kind are indicated with a "Y" if the asset was given to the department by an outside source; a blank field will default to "N," indicating the asset was not donated

- Comments Section: add any information necessary to track an asset properly that might be useful to the ordering unit or to Property Accounting in preparing the Fixed Asset Accounting Inventory System

B. Accounting for the Value of a Fixed Asset

Based on how they were acquired, the University separates fixed asset accounting into five categories: newly purchased, donated, leased assets, fabricated equipment, and constructed buildings and building improvements.

Newly Purchased Assets

To determine the value of an asset, include the purchase price, transportation costs, installation costs, value received from a trade-in, and any other direct expenses incurred by the University in obtaining the asset. Training, maintenance agreements, and warranty agreements are not considered part of the fixed equipment cost and should be expensed.

> Note: For the item traded in, send a "Fixed Asset Disposition Report" to the Property Accounting Assets office.

If you subsequently purchase additional components valued at less than $2,000, you must treat them as non-capital expenses.

Special Rules for Sponsored Programs

Assets acquired under a grant or contract must comply with all contractual obligations set forth by the sponsor. For example, if the contracting agency requires tracking of equipment valued below the $2,000 threshold, the unit must barcode tag the item and notify Property Accounting using the Fixed Assets Acquisition Form. Property Accounting will add the item to the inventory system for control purposes only.

Capital Gifts-in-Kind (Donated Assets)

When an asset is donated to the University, its value is recorded as the market value of the asset at the time it is received. To determine the market value of the asset, use the appraisal price, the selling price to educational institutions of an equivalent item, and/or information on IRS form 8283. The market value is what it would cost the University to purchase the asset if it had not been donated. If assistance is needed in determining value, contact Property Accounting for assistance.

> Note: Transportation and installation costs provided when valuing a donated asset must also be included in the calculation of the asset's value.

In some cases, the University receives an asset furnished by the government or a corporation and its title is held by the funding agency. When title is transferred, the University receives a gift-in-kind for the market value of the item as of the date it was transferred, not for the original acquisition amount. Upon title transfer to the University, all government tags and indicia must be removed.

> **Caution**: In all cases, to facilitate proper stewardship and meet IRS requirements, Contribution Accounting must be notified when gifts of assets are received. Also, if the gift's value is above the capitalization threshold, it must be added to the Fixed Asset Inventory System.

Transferred or Government-Furnished Equipment

Sponsored activity may result in the University obtaining use and/or ownership of equipment outside of the procurement process. Equipment may be transferred to Oral Roberts University along with a sponsored agreement, most often when the principal investigator takes a position at ORU. Government contracts may also provide equipment from other sources. In both cases, the asset must be added to the Fixed Asset Inventory System by completing a Fixed Asset Acquisition Form. The items must be valued by methods described in the Capital Gifts-in-Kind section above. Disposal of fixed assets purchased with federal funding must be made in compliance with the stipulations set forth in the Code of Federal Regulations.

Leased Assets

These are assets purchased under a capital lease. It is seldom to the University's advantage to acquire an asset using a lease agreement as leases are a means of financing and always contain an interest expense component. If your unit cannot pay for an asset, the University's Finance Office may be able to assist you with financing alternatives.

When using a capital lease, the University must record the capital asset as follows:

1. Record assets purchased under a capital lease when the asset is placed in use.

2. Value all capital leases at the current market value, exclusive of interest.

3. Use a present value calculation based on the monthly payments to determine the cost, minus imputed interest, if the current market value of the asset is not known. Units should contact Property Accounting to receive assistance with the calculation.

   Caution: Items paid for with an operating lease are not considered fixed assets, and the lease payments are considered a rental expense.

Fabricated Equipment

The value of a fabricated (constructed) asset is equal to the total federal allowable costs associated with its construction. These costs include the following:

- Original invoice prices paid for components

- All costs for shipping, handling, in-transit insurance, and storage related to delivery and installation of the asset's components

- All installation costs, including site preparation

- All testing costs

- All books, manuals, and training necessary for the asset's operation

   Caution: Units may not charge University employee labor costs to a fabricated equipment account.

An asset is treated as fabricated equipment if it both meets the definition of an asset being constructed through this process and has a defined development period. Because these assets are not depreciated until placed in service, such assets are generally assumed unusable until fabrication period is complete. If any phase of a multi-phase project will be an independent, functional unit once that phase is completed, the entire project must be treated as individual fabrications. Additions to capitalized fabricated equipment are treated like those to traditional equipment.

To value a fabricated capital asset properly, when the fabrication period begins, units must work with General Accounting to establish a unique departmental account, so that all allowable costs associated with the fabrication can be tracked independently. Once the fabrication is complete, and the asset is placed into service, the unit must notify Property Accounting for the asset to be capitalized.

The fabricated asset must meet the criteria of a capital asset; that is, it must have a total cost of $2,000 or more and a useful life of at least two years. To record the asset in the Fixed Asset Inventory System properly, see Section A – Recording a Capital Asset for these procedures.

Constructed Buildings and Building Improvements

The value of these assets equals the total amount paid for acquiring or improving the asset, such as labor, materials, architectural and design fees, charges by brokers, agents, and notaries, building permits, inspections, and filing costs. Also included are costs of utilities during construction and landscaping related to the building.

General Accounting will record the project as a capital asset if it accomplishes either of the following:

- Adds net assignable square footage of facility space, regardless of cost (example: when a closet is renovated into office space).

- Extends the facility's useful life and costs at least $2,000.

Alterations are considered repairs and/or maintenance if they (1) do not add useable space or (2) cost less than $2,000.

D. Tagging Assets

To identify ownership and complete the cycle count process, bar code tags must be affixed to all new, moveable capital equipment valued at $2,000 or more. The bar code tag is a unique number that the unit can scan electronically to update the inventory records. Regularly (at least monthly), Property Accounting will review new additions and ensure tags are affixed on capital equipment.

> **Caution**: Do not tag artwork, sensitive technical equipment, or other such items if tagging is impractical or affects its function, value, or the ability to return it to the manufacturer under warranty. It is the unit's or Business Service Center's responsibility to maintain a specific file for all such untagged fixed assets for review when requested.

Once final disposition of tagged capital assets, including those that are government or grant-owned, has been determined, the unit should remove all tag(s) before disposing of the asset (see Section G – Before Disposing of Fixed Asset Accounting for these procedures). Removed tags should then be affixed to the disposition form and returned to Property Accounting.

Endowed Assets and Government or Grant-Owned Assets

Units must assign bar code tags to all new, moveable fixed assets and fill out a Fixed Asset Acquisition Form.

> **Caution**: This policy does not address all governmental rules and regulations governing the purchase, use, and disposal of government-funded, furnished, or transferred equipment. Please review all pertinent federal regulations.

D. Relocation of Equipment

To comply with federal cost allocation regulations, location information for all movable equipment must be kept current. At the time equipment is relocated, complete the Fixed Asset Transfer Form.

E. Transferring Equipment to Another Oral Roberts University Unit

When capital equipment is transferred from one unit to another within the University, units must complete a Fixed Asset Transfer Form. The transfer must be authorized by both the releasing and receiving unit.

> **Caution**: Special requirements may apply when transferring assets acquired on sponsored agreements.

F. Conducting Cycle Counts

The purpose of a cycle count is to verify the existence, location, and condition of equipment and ensure the accuracy of University accounting records. Property Accounting must perform a cycle count inventory of all fixed assets every three years.

The inventory system maintained by the Property Accounting department is the official University record for capital asset inventories. Accuracy of the information within this system depends on units to complete the appropriate forms to add, delete, and relocate equipment properly.

To maintain accurate inventory lists throughout the year, units should communicate all changes to Property Accounting as they occur. The cycle count inventory process will reveal discrepancies between recorded data and physical assets. Property Accounting will reconcile discrepancies and update the records.

Instructions for Units for Cycle Counts

Property Accounting will coordinate with units to schedule physical inventories using a bar code scanner. Units and Property Accounting are given specific timeframes to complete the cycle counts based on inventory size and complexity.

After the scanning is complete, Property Accounting will match the scanned file with the University's records. Property Accounting will reconcile both the items not on the University's records and items not scanned.

> **Caution**: Delay in processing iPurchases or the Fixed Asset Acquisition Form will result in incomplete cycle count reports.

During a cycle count, those that are taking the physical inventory will:

- Add to the Fixed Asset Accounting Inventory System fixed assets that were found during the inventory process but were not on the inventory list by completing a Fixed Asset Acquisition Form.

- Identify those items on the inventory list that have since been disposed of since the last update. If the asset had a net book value of $2,000 or greater, see Section H – Before Disposing of Fixed Assets on how to report the disposal, based upon the greater of book value or market value at the time of disposal. Regarding any disposition, indicate the value received, the disposition date and method of disposal.

- Indicate any corrections to the location, description, status (examples: in-use, and storage), condition, etc., and provide the required supporting documentation for changes (e.g., disposals, cost, transfers, etc.).

  Caution: The appropriate levels of authority must approve all disposals noted on an inventory. For information on equipment used at home, see Section I – Special Circumstances for these procedures.

G. Before Disposing of Fixed Assets

Before disposing of a capital asset, units must communicate disposal plans to the Property Accounting department through use of the Fixed Asset Disposal Form.

The request must include the following information about the discarded asset:

- Bar code number or item number
- Estimated current market value
- Calculation of how the market value was determined
- Reason for disposal
- Recommended disposal method (examples: sale, transfer or donation to another organization, trash, or use for parts)

Property Accounting personnel either will approve the request, or make the unit aware of any disposal limitations.

Government- or Donor-Funded Assets or Contractor-Furnished Assets

Assets acquired with government or restricted funds are subject to terms of the agency, federal regulations or those stated in the various agreements. Title to equipment may belong to the sponsor or the University.

In each case, it is likely that permission from the agency will be needed before disposing of government or donor-funded assets. To begin the required disposal process for these items, contact Property Accounting for assistance.

In-Kind Capital Gifts

The Internal Revenue Service has specific reporting requirements for disposing of fixed assets received as gifts. Specifically, gifts valued at $5,000 or more that are disposed of within three years of the date of the gift must be reported to the Internal Revenue Service on Form 8282. Tax Accounting must meet these reporting requirements based on information received from units.

> **Caution**: Because of the potential sensitivity of these transactions, before disposing of any in-kind capital gift, units must contact both Restricted and Property Accounting.

H. Disposing of Fixed Assets

When disposing of Fixed Assets, please follow these steps:

1. Before disposal, remove all tags and official University seals or logos. Affix tags to the Fixed Asset Disposition Report form, and send it to Property Accounting *Note*: Before disposing of computer equipment, to preserve confidentiality and protect University interests, units must remove all data and University-licensed software through disk formatting, degaussing, or other permanent means. Please contact the Information Technology department for assistance in doing this properly.

2. Physically remove from the property items approved for disposal. When necessary, Units may move them to a temporary storage location within your unit's buildings.

3. Include only items that have been formally approved for disposal.

4. In all circumstances, units must use a Fixed Asset Disposition Report form to notify Property Accounting of the disposition of the asset and the amount of any proceeds collected from the sale.

Assets must be discarded in an environmentally responsible fashion. Even common items, such as computers and refrigerators, may be considered regulated waste and/or require special handling. For guidance, contact your building coordinator or the University solid waste manager.

I. Special Circumstances

Computer Software

Computer software differs from other fixed assets because it is not always tangible or separately identifiable. Therefore, for control and accounting purposes, software is not classified as moveable equipment. However, large expenditures for software must be amortized, rather than written off as an expense in one fiscal year.

To accomplish this, general accounting must capitalize software in the following manner:

1. Record any new, individual software purchase or an upgrade to an existing software package greater than $2,000 as an intangible asset using the appropriate cost code.

2. Charge as an expense any individual software purchase or upgrade costing less than $2,000 within the fiscal year of purchase using the appropriate (computer supplies) cost code.

3. Do not tag software boxes and storage media.

   Caution: Personal computer operating and application software included with the purchase of a computer system (hardware) is considered part of that hardware system, and the total value of hardware includes software costs.

Equipment Used at Off-Campus Locations

To facilitate work-related projects, occasionally it is necessary to take moveable equipment off campus (e.g., to use at home, on business travel, or at off-site laboratories).

When removing University-titled capital equipment from the campus for more than seven consecutive days, the individual removing it must notify either the Unit administrative manager, or whoever is responsible for tracking the equipment.

Government-titled equipment requires immediate notification to the Unit administrative manager. At a minimum, this notification must include all of the following:

- Item description and bar code number
- Specific description of the off-campus location
- Date of removal
- Expected return date

  Caution: For internal or external audit purposes, units may be required to verify at any time the existence and location of a fixed assets. This requirement applies regardless of the source of funds used for the acquisition.

Personal Use of Fixed Assets

Personal use of University assets is prohibited when such use shortens the life of the asset or accelerates its maintenance schedule, such as personal use of machine tools, grounds equipment, and fleet vehicles.

Personal use of University assets is also prohibited when that use obstructs other University personnel who need the asset for performing their job duties (example: personal use of a copier). Occasional, immaterial, or insignificant use of certain University assets is allowed with supervisory approval, as long as the use falls outside of the above two prohibitions.

Library Materials

Library materials are recorded as long-lived assets, although the market value of an individual item is generally below the capital threshold. This category consists of books, journals, bound periodicals, and microfilms purchased for and catalogued in libraries that are part of the University library system. These assets are depreciated over an estimated useful life of ten years.

Special Collections

Special collections are assets having a very long (or infinite) useful life but are managed differently. The University records collections as long-lived assets but does not depreciate them over a useful life. Periodically a special collection will be appraised to determine its fair value. Adjustments to the carrying value of the special collection are made based on the appraisal.

Vehicles

For information on registering, insuring, maintaining and operating University vehicles, employees should coordinate their efforts with the University's Motor Pool department.

Government-Furnished Equipment (GFE)

Refer to Transferred or Government-Furnished Equipment under Section B – Accounting for the Value of Fixed Asset.

Equipment Acquired Through Sponsored Programs

Refer to Special Rules for Sponsored Programs under Section B – Accounting for the Value of Fixed Asset.

V. Definitions

Accumulated Depreciation – The total amount of depreciation that has been recorded for an asset since its date of acquisition.

Acquisition Cost/Value – Value of an asset at the time it is acquired. May be the invoice price or, if donated, the fair market value. Also included are costs incurred to place the asset into service (examples: freight, installation).

Additions – Acquisition of new assets, or modifications to existing assets that increase the useful life or the service potential of these existing assets. Examples include addition of a wing to a building or installation of a central air conditioning system in an office.

Appraised Value – Estimated value of an asset based on the expertise of a qualified independent appraiser.

A/V Equipment – Audiovisual equipment such as projectors, screens, microphones, and speakers.

Bar Code Tag – Asset identification tag assigned and affixed to an asset to assist in its identification and the cycle count of equipment.

Book Value – Difference between the acquisition cost and accumulated depreciation. At the time of acquisition, book value equals acquisition cost. For gifts, it is the market value at the time of donation.

Building – Roofed facility intended for the permanent or temporary shelter of persons, animals, plants, or equipment and equipment items designed and installed as an integral part of a structure.

Building Improvements – Building improvements differ from equipment in that they are not separate from the building structure. Useful life of building improvements are the same as that of the building. Examples include light fixtures, wall-to-wall carpeting, and raised flooring.

Cameras – Apparatuses for taking photographs or transmitting television signals.

Computers – A computer can include the following items: drive, modems, expanded memory, cables, keyboard, monitor, operating system software, which are purchased as an integral part of a system.

Capitalize – To record the cost as an asset that is subject to depreciation over its estimated useful life, rather than as an expense for one accounting period.

Depreciation – The periodic cost assigned for the reduction in usefulness and value of a long-term tangible asset. Generally accepted accounting principles and governmental tax regulations dictate the estimated useful life that the value of fixed assets must be written off as an expense.

Disposition – Final status of an asset when it is removed from the inventory of assets and no longer physically located on site (examples: sale, scrap, donation, transfer to another unit, etc.).

Equipment and Furniture – Assets not permanently affixed to a building.

Expense – Charge incurred for the current fiscal period.

Fabricated Equipment – Equipment built on-site, not purchased in final form.

Fixed Asset – Tangible or intangible item, with a permanent life of at least one year that is held for purposes other than investment or resale and has a value of $2,000 or more.

There are ten types of fixed assets:

1. Building and Building Improvements,
2. Cameras, A/V Equipment, Musical Instruments,
3. Computers, Technology, and Network Items,
4. Equipment/Furniture
5. Land and Land Improvements
6. Library
7. Vehicles
8. Projector
9. Software
10. All other

Fixed Asset Representative – ORU employee designated by each department as responsible for fixed asset control. Control includes preparing forms, stewardship of assets, ensuring bar codes are tagged to new assets, and assistance in completing the cycle counts.

Gift-in-Kind – A donation to the University of an asset other than cash, marketable securities, goods or services. This can be something useful to the University, such as office equipment, vehicles, furniture, etc., or something with a longer duration, such as books, artwork, or copyright interests.

Intangible Asset – Asset not having physical substance (examples: a patent, goodwill, software).

Inventory Item Number – Sequential number generated by the Property Accounting Department that is unique to each item of equipment.

IRS Form 8282 – A form that the University is required to send to both the Internal Revenue Service and the donor if the donated property (other than publicly traded securities) is disposed of within three years of the date of the gift and the donated property was valued on Form 8283 (see below) at more than $5,000.

IRS Form 8283 – The form that donors are required to attach to their tax returns whenever they donate property to the University (other than cash or marketable securities) valued at more than $5,000.

> Note: If the property is valued at more than $5,000, the Vice President of Development must sign the form and return it to the donor. It is the donor's responsibility to obtain an appraisal on the item prior to donating.

Land – Solid part of the earth's surface.

Land Improvement – Additions to the land that add limited-life enhancements such as driveways, parking spaces, pavement, and fencing.

Lease, Operating – Installment payment agreement that does not meet the criteria of a capital lease.

Lease, Capital – Installment payment agreement made to acquire fixed assets. Leases are considered capital leases under any of the following circumstances:

a) Ownership transfers to lessee at end of lease
b) Lease contains bargain purchase option
c) Lease period is at least 75 percent of its useful life
d) Present value of lease payment is at least 90 percent of fair market value

Library Materials – Books, journals, bound periodicals and microfilms purchased for and catalogued in libraries in the University library.

Maintenance – Activities related to the repair and upkeep of an asset with the intent of preserving the original useful life and function.

Market Value – Cost to acquire an item in its current condition through an arm's-length transaction – also referred to as "fair market value".

Musical Instruments – Instruments for producing musical sounds such as woodwinds, percussion, strings, and electronic instruments.

Network devices – include servers, hubs, switches, and similar devices functioning together to make the network function properly.

Obsolescence – Factor to consider when determining the disposition of assets. Assets are obsolete when no longer useful to the University.

Other – Miscellaneous fixed assets that do not fit into any of the other types of asset categories.

Projector – A device for projecting a beam of light.

Scrap Equipment – Item that can be discarded as worthless or broken down into parts for disposal or salvage.

Software – Entire set of programs, procedures, and related documentation associated with a computer system.

Special Collections – Works of art, rare books, historical treasures, or scientific specimens that are held for public exhibition, education, or research, rather than for financial gain. They are protected and preserved and are subject to a formal policy that recommends that the proceeds of items sold be used to acquire other items for collections.

Surplus Equipment – Fixed assets that are no longer needed or required by the University.

Technology – The material product that is the result of the usage and knowledge of tools, techniques and crafts, or systems or methods of organization. In everyday terms, technology can mean electronic devices, such as printers, scanners and similar peripheral devices used primarily to support a computer system.

Unit – School, department, program, research center, business service center or other operating unit within the University.

University Vehicle – A self-propelled wheeled conveyance used for the purpose of conducting University activities.

Useful Life – The period of time over which a capital asset has benefit to the University in performing the function for which it was purchased. The useful life is estimated by the University's depreciation policy which is reviewed periodically for appropriateness.