

# ABS Fixed Asset Policy

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## B. Policy Statement

The purpose of this Fixed Asset policy is to set forth the guidelines for the physical and reporting control of the ABS's fixed assets. The policy establishes definitions, asset valuation methods, capitalization thresholds and useful life, and depreciation method. It will assist the Controller in gathering and maintaining information needed for the preparation of the financial statements.

The guideline assigns responsibility to the Budget Administrators for the proper accounting for fixed assets at the department level and to the controller for the maintenance of the Fixed Asset Database and Accounting system. Final oversight lies with the Treasurer.

## C. Reason for the Policy

This policy provides the fixed asset standards required of ABS by General Accepted Accounting Principles, the Financial Accounting Standards Boards ASU 2016-14 and for federally funded fixed assets by the Office of Management and Budget Uniform Guidance.

## D. Applicability of the Policy

This policy applies to all ABS staff, and to fixed assets from all funding sources. This policy applies to all property for which the ABS is accountable, including property that has been purchased with outside funding. It further covers the acquisition, valuation, donation, salvaging, record keeping, custodianship, use, transfer, loan, retirement, accountability, care, modification, and reporting of all property under ABS's care and custody. This policy sets out required minimum standards.

## E. Definitions

**Fixed Assets:** Tangible assets acquired, purchased, constructed, or donated for use in operations and not for investment or sale. Their useful life is larger than two years, they retain their individual identity (including all component parts) throughout their useful life and meet the thresholds listed below.

**Costs below capitalization thresholds:** Items that do not meet the monetary thresholds listed in this policy are expensed in the period incurred.

**Maintenance and repairs:** Costs associated with recurring work required to preserve or immediately restore an asset to such condition that it can be effectively used for its designed purpose. Maintenance includes work done to prevent damage to an asset. Examples are custodial services, repainting a room, fixing a leaky faucet, and replacing parts of an engine. Maintenance and repairs are expensed in the period incurred.

**Preservation and restoration:** The costs associated with maintaining special assets in or returning them to a level of quality as close to the original as possible. An example would be returning a stained glass window to its former level of beauty or acting to prevent any further deterioration. Preservation and restoration cost are to be expensed in the period incurred.

## F. Types of Fixed Assets

### 1. Land

Land is not depreciated and its cost lasts forever. It is considered real property. The cost of land includes its acquisition cost. It also includes the initial costs of making changes to it so that it can be used for the purpose intended. When the acquisition of land includes buildings, the total cost is allocated between the two in reasonable proportion to their appraised value at the date of acquisition. In absence of a reasonable basis, other sources may be used such as an expert appraisal or real estate tax assessment records. If the acquisition plan contemplates the removal of the buildings, the total cost including removal is accounted for as cost of land. Any salvage value of the removed buildings, when disposed of, is deducted from the cost.

Examples for costs included in the cost of land are contract price, real estate broker commissions, appraisals, legal fees involved in the transaction, cost of title guaranty insurance policies, cost of real estate survey, cost of an option that has been exercised, special government assessments, fees charged by government for changes in land use or zoning, cost of recording title, cost of cancellation of unexpired lease, cost to move tenant if payable by purchaser, payment of past due taxes if payable by purchaser, cost of easements or rights of way, and assessments for the construction of public improvements. Further it includes the cost of preparation of a construction site such as toxic waste cleanup, grading land and providing drainage, sewers, or placing utilities which are put in once and unless damaged by force or disrupted by plans for new uses of the land, do not require maintenance.

### 2. Land Improvement

Land Improvements are not depreciated if they have an indefinite economic live. They are then added to land cost. Costs of land improvements that have a limited life are depreciated. These include paved

parking lots and sprinkler systems, as well as recreational and landscaping improvements, fences, roads, lighting, swimming pools, athletic fields, sidewalks, docks, bridges. Costs necessary to the specific construction of a building such as grading and excavation for the building, removing trees and other foliage are also included. Land Improvements are considered real property.

### 3. Buildings

Buildings have a limited life and are thus depreciated. They are considered real property. All expenditures directly related to the purchase or the construction of buildings are included in the building cost except for cost associated with land and land improvement (see above). Some examples of cost associated with buildings are contract price or price of construction, costs for architect's fees, plans, and other planning events, cost of government fees and building permits, payment of prior year taxes accrued on the building if payable by purchaser, other costs such as security or temporary fencing, temporary buildings used during construction or other costs directly attributable to the construction or purchase of the specific building and capitalized interest.

#### a) Building Shell

For any building newly constructed or purchased, a building's outside "shell" (that is, its foundation, walls, and floors) is to be treated separately from its building service components for asset classification and cost depreciation purposes.

#### b) Building Addition

Additions of a building component or a building section where one did not previously exist.

#### c) Building Replacement

Replacement is the total replacement of a unit with a new unit that serves the same purpose and has the same estimated useful life as the unit being replaced. The obsolete asset is recorded as a loss on retirement of the old building, that is the capitalized value and the associated accumulated depreciation of the replaced item is removed from the accounting records. The cost of the replacement is capitalized as a new asset.

#### d) Building Systems / Interior

For any building newly constructed or purchased, a building's components (that is, plumbing, electrical system, roofing, interior finishing, siding, and HVAC), will be treated as a single asset and depreciated over a single useful life. If a component can be removed without damaging the building, it is considered equipment and should not be included in the value of the building.

#### e) Building Renovation

Extraordinary repairs, not recurring in the routine maintenance process, which extend the useful life of an asset or increase its use value beyond what it was before the repairs, are capitalized. This includes alterations such as a change in the internal arrangement or other physical characteristics of an existing asset so that it may be effectively used for a newly designated purpose such as changing classroom space into office space and renovations such as the total or partial upgrading of a facility to higher standards of quality or efficiency than originally existed, e.g., creating smart classrooms.

Expenditures including expenditures for replacement parts made to maintain an asset in efficient operation condition are repair and maintenance cost and are expensed. This includes replacement of roof coverings which do not extend the useful life of the building, floor coverings and window coverings.

#### f) Construction in Progress – Self Constructed Assets

All direct costs associated with construction and management costs associated with a construction project can be capitalized based on the policy governing the type of asset. Direct costs are costs that are identified specifically with the construction project in the sense that they would not have incurred otherwise such as material and labor and interest costs. Department project management costs are included by using a percentage of the actual project management costs as well as a percentage of utility costs. Indirect costs are excluded. Only when construction is completed and the asset is put into service, the asset is capitalized.

#### g) Capitalized Interest Cost

Interest payments for financed projects are to be capitalized in accordance with FASB ASC 835-20 and its amendments during the period of time that is required to complete and prepare the asset for its intended use.

#### h) Financing Lease FASB ASC 842 (effective 2019)

Under the FASB model, a lessee should classify a lease based on whether the arrangement is effectively a purchase of the underlying asset. Leases that transfer control of the underlying asset to a lessee are classified as finance leases (and as a sales-type lease for the lessor); lessees will classify all other leases as operating leases. In an operating lease, a lessee obtains control of only the use the underlying asset, but not the underlying asset itself. Assets acquired under capital leases are depreciated over the life of the type of asset it represents or the term of the lease, whichever is shorter.

#### i) Leasehold Improvement

Leasehold improvements in the form of buildings or structural alterations, renovation, or improvements made by the lessee to the leasehold are capitalized similarly to owned property, except that economic life is related to the term of the lease.

## 4. Equipment

Equipment is an article of non-expendable, tangible property having a useful life of more than two years and an acquisition cost that equals or exceeds the capital threshold. It includes machinery, computers, and office equipment, furniture, fixtures, and boats, vehicles of all types, tools, and containers, irrigation equipment, printing presses, and building systems (heating, cooling, and elevators) and is considered personal property.

All costs involved in putting equipment into a condition ready for use should be included in the asset value. Some of the costs that may be incurred are contract price, commissions paid, legal fees and other contract costs, freight, handling, and storage costs, sales or use tax and other taxes or fees assessed, cost of preparation of the space for installation, use of cranes or other means of installation, installation charges, cost of testing and preparation for use and costs of reconditioning used equipment purchased. Discounts are deducted from the cost.

Add-ons which are added more than six (6) months after the original acquisition with an acquisition cost of at least \$1,000, which materially and permanently increase the value or useful life of a capital item, are capitalized and their cost added to the capital cost of the item being enhanced; otherwise, they are expensed. The purchase order or the tag number of the enhanced capital item must be referenced on the requisition and purchase order or procurement card order for the enhancement part in order for the enhancement part to be considered a fixed asset.

ABS depreciates scientific and other equipment over a 5 year period.

Fixed asset policy, cont.

#### a) Office Equipment

These are long-lived assets needed to run a business such as typewriters, calculators, scanners, fax machines, copiers, shredders, projectors, screens, video conference systems, and video and photo cameras.

#### b) Furniture and Fixtures

Examples are filing cabinets, desks, chairs, tables, shelves, lamps, production furniture, curtains, instrument drapes, mattresses, key system, lecterns, bleachers, commencement platform.

ABS depreciates equipment over a 10 year period.

#### c) Computers and their Peripheral Equipment

Examples are computers, printers, card readers, mass storage units, disk drives, batteries, workstations. This category includes computer replacements purchased for scientific equipment.

ABS depreciates computer equipment over a 5 year period.

#### d) Software Licenses

Software acquired, internally developed, or modified to meet the Institute's internal needs, with no intention of marketing the software externally are capitalized. Site licenses can only be capitalized if they do not include such items as provisions for maintenance, help desk support, or training. Examples are telephone update software, catering software, firewall, business or program software, timekeeper system.

Cost related to internally-developed software such as costs in the preliminary stages of development, including conceptualization, evaluation of alternatives, and assessment of technology to support performance are expensed. Fees paid for training, conversion costs, and software maintenance are expensed.

#### e) Mainframe Processors, Servers, Networks, and Electronic Systems

Examples are servers, server farms, banner hardware needs, routers and switches, costs and components associated with the storage project, implementing a complete phone system, the unified messaging system, and the card access project.

#### f) Scientific Equipment

Equipment purchased by the Institute that is used for scientific research but is not a computer. Examples are microscopes, spectrometers, oscilloscopes, centrifuges, animal anesthesia system, lasers, and telescopes.

#### g) Heavy Equipment and Machinery

Machinery needed in the heating plant such as turbines; facilities equipment such as personnel lifts, brush chippers, smog hog air ventilation/filtration, air compressors, and generators; recycling equipment such as crushers and trash compactors; and ski area equipment such as ski lifts and snow making equipment. Tennis platforms fall also under this category.

### 5. Bulk Purchases

Bulk Purchases of like capital assets with unit costs of less than the capital threshold are capitalized as a group where the allocation of costs for the bulk assets over time is matched to the corresponding benefits generated by the bulk assets. Examples are computers, scientific equipment like microscopes and oscilloscopes, and furniture including mattresses.

Fixed asset policy, cont.

## 6. Asset Retirement Cost

See Separate Policy.

## G. Valuation

### 1. Cost of Asset

Fixed assets acquired by purchase are recorded at cost including all normal expenditures of readying the asset for use less discounts. See the type of asset description for more information.

### 2. Donated Assets

For donated fixed assets the true market value needs to be established using an appropriate source of information. Written documentation of how the market value was established is required. Acceptance of donation estimated to exceed \$5,000 may be conditioned upon the receipt of a qualified appraisal or other documentation acceptable to the Controller. Donated assets that will be resold are investments, are not considered fixed assets and should not be capitalized.

### 3. Salvage Value

Property that, because of its worn, damaged, deteriorated, or incomplete condition or specialized nature, has no reasonable prospect of sale or use as serviceable property without major repairs, but has some value in excess of its scrap value (its basic material content) is considered salvage. If the salvage value is greater than \$0, annual depreciation is reduced by that salvage value.

### 4. Disposal

At the time of the disposal of an asset, the undepreciated balance of the asset is reduced by any proceeds to arrive at a gain or less which is shown as an increase or decrease in unrestricted net assets.

## H. Threshold

The standard capitalization threshold for capitalizing assets has been established as \$5,000. The only exception is land. The capitalization threshold for land is \$0.

## I. Useful Lives

Useful lives for classes of assets have been established as follows:

Type of Asset	Depreciation Period
Land	Land Not Depreciated
Land Improvement	20 Years
Buildings	
Building Shell	60 Years
Building Addition	60 Years
Building Replacement	60 Years
Building Systems / Interior	20 Years
Building Renovation	20 Years

## Fixed asset policy, cont.

Capitalized Lease	Useful life of asset (or term of the lease, whichever is shorter)
Leasehold Improvement	20 Years (or term of the lease, whichever is shorter)
Office Equipment	4 Years
Furniture and Fixtures	7 Years
Personal Computers and their peripheral equipment	4 Years
Software Licenses	4 Years
Mainframe Processors & Servers & Network Systems and Electronic Systems	7 Years
Art & Antiques	Not Depreciated
Rare Books & Collections	Not Depreciated

## J. Depreciation

Depreciation is the annual charge to income that results from a systematic and rational allocation of cost over the life of a fixed asset. ABS depreciates assets titled to Capital Equipment monthly and posts that depreciation to the General Ledger. ABS-titled assets are depreciated according to the straight-line full month depreciation method. This means the total cost of the asset is divided by the number of years in its useful life and that amount is depreciated annually, posted in monthly increments. Depreciation normally begins when an asset is purchased or completed. If it is not placed into service immediately, depreciation begins when the asset begins to lose value. Depreciation expense is allocated to the functional categories (via assigning a program code) in the Statement of Activities.

## K. Policy Elaboration

### 1. Acquisition

Upon receipt of any fixed asset, the financial controller advised by purchasing scientist is responsible to ensure the asset is sufficiently evaluated for correctness, completeness and is in good working order. Any discrepancies must be resolved as soon as possible. The designated department property administrator shall coordinate all efforts with the buyer, the equipment user and the manufacturer and/or shipping company.

### 2. Accurate Records

From acquisition through disposal, for each asset the following record information is needed in order for the financial controller to create a record in the Fixed Asset Database and keep it properly maintained:

- Description of the asset including Model Number were applicable
- Quantity
- Manufacturer's name or Vendor
- Manufacturer Serial Number
- Purchase Order number if applicable
- Asset Type
- Department



Fixed asset policy, cont.

- Location (911 address)
- Acquisition date
- Placed in Service Date
- Fund
- Funding sources (Institute, federal, state, private funding)
- Org
- General Ledger Asset Account Number
- Program Code
- Activity or Index were applicable
- Disposition data including date of disposal, trade-in value or sales price.

Most of this information can be obtained from the Purchase Order or the invoice; in case of questions the financial controller will contact the departments.

Copies of the fixed asset record documents, such as purchase orders and invoices need to be kept for audit purposes readily available and complete. See the record retention policy for further guidelines.

The financial controller or designated representative is responsible for verifying that all asset data are correct and for notifying the financial controller when capitalized equipment is donated, transferred, or retired.

### 3. Custodianship

Each moveable equipment item has a department assigned to it which requires the department to be ultimately responsible for the implementation of these property standards.

Each department is responsible for the utilization, maintenance, inventory, tracking, storage, security, disposition, and reporting of property. It should implement a control system to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the department shall promptly notify the Federal awarding agency and the financial controller.

The departments shall implement adequate maintenance procedures to keep the equipment in good working condition.

### 4. Equipment Use

Each department shall use their equipment in the project or program for which it was acquired as long as needed and shall not encumber the property without approval by an authorized official evidencing prior consent.

During equipment usage on the project or program for which it was acquired, the department shall make it available for use on other projects or programs if such other use will not interfere with the work on the project or program for which the equipment was originally acquired.

### 5. Transfers

Fixed assets which are assigned to a different functional area (program code) need to be transferred in the fixed asset system. The financial controller needs to be informed of the transfer in writing.

Transfers to a new institution require permission by the department head. A copy of the letter (or email) needs to be sent to the financial controller. Equipment is transferred to a new institution with the

Fixed asset policy, cont.

understanding that the new institution accepts title to the equipment in its present condition and also accepts responsibility for all transportation costs.

## 6. Loans

Equipment (fixed assets and expensed assets) for which the ABS is accountable shall be loaned between divisions or to a non-ABS entity only with appropriate authorization from the COO (or Director of Operations if there is no COO) or President.

When ABS equipment is loaned to a non-Institute entity, such entities must be either a U.S. Government agency or a non-profit educational and/or research institution. ABS does not loan equipment to for-profit entities unless directed to do so by the sponsor that funded the equipment purchase. In such cases, documentation of that direction (e-mail or other) from the sponsor must be provided to the financial controller along with the Equipment Loan Agreement.

## 7. Retirements

### Stolen Items

Stolen items must be reported to the CEO or President within 24 hours of discovering the item as stolen. The police should be notified as soon as possible but not later than 3 days after the discovery. A police report must accompany documentation for writing off the asset.

### Disposal of Assets

Prior to the disposing of an item, the department shall ensure that the fixed asset cannot be re-utilized within the ABS.

Upon approval by an authorized official evidencing prior consent to dispose the fixed asset by financial controller, the department shall use the appropriate disposal business procedures. Each office shall retain a record of their ultimate disposition of each fixed asset for audit purposes.

Approval is also required to sell or transfer fixed assets outside ABS's disposal business processes. The department shall provide the financial controller sufficient details of the pending sale or transfer.

## 8. Federally Funded Equipment

Fixed assets owned by the Federal Government shall be tagged by the Accounting Manager in a way to indicate Federal ownership. ABS's procurement policy covers federal government required purchasing requirements.

## 9. Insurance

ABS procures and maintains insurance consistent with prudent practices to protect its personal and real assets. This coverage satisfies the requirements of the federal agreements, other contracts, and requirements of other funding agencies.

## L. Procedures

Written procedures for recording fixed assets in the Fixed Asset System as well as in the general ledger are included in a separate document.

## M. Forms

None

Fixed asset policy, cont.

## N. Contacts

Questions related to the daily operational interpretation of this policy should be directed to the CEO or President who is the official responsible for the interpretation and administration of this policy.