Delaware State University

University Responsible Unit: Finance and Administration Division
Policy Number and Name: 3-05 Fixed Asset and Inventory Management Policy
Approval Date: April 13, 2015
Next Review Date: April 15, 2017

I. Policy Statement

Delaware State University (DSU) has a significant investment in fixed assets, such as land, buildings, equipment, software, furniture, and vehicles which are used to carry on its missions of purposefully integrating the highest standards of excellence in teaching, research and public service. The University follows the same procurement policies and procedures for the purchase of equipment and other fixed assets as it does for any other purchase of goods and services. DSU will specifically comply with the Federal Office of Management and Budget Circulars, Federal Acquisition Regulations and State of Delaware Asset Management Accounting Policy.

This policy addresses the basic requirements for fixed assets but does not address all specific procedures, especially those processes related to the approval, authorization, and appropriation of building construction or capital outlay projects.

II. Purpose

The purpose of this policy is to ensure that the University's fixed assets are acquired, safeguarded, controlled, disposed of, and accounted for in accordance with state and federal regulations, audit requirements, applicable accounting pronouncements, generally accepted accounting principles, and in a manner that supports the maximum recovery of Facilities and Administrative (indirect) costs associated with these assets. Fixed assets are defined as tangible property items, have an estimated life of more than one year, and have a value greater than $5,000. DSU will maintain an inventory of all Controllable Assets as defined in Section 6.

III. Scope and Applicability

In addition, this policy applies to all fixed assets regardless of source of funds used to acquire the assets (including donated assets) and applies to all University departments that use, have custody of, or have been assigned responsibility for such fixed assets. Items owned by faculty, students, and staff are not covered by this policy.

IV. Ownership

All fixed assets are owned by the University and not by a specific individual, department or other operating unit. Generally, the University has sole ownership of all equipment acquired regardless of the source of funding or method of acquisition with the following exceptions:

- Equipment acquired through sponsored projects where the federal government or other sponsor retains title to the equipment or where the sponsor furnishes equipment merely for the duration of the project.
- Equipment on a short-term loan from another institution or agency
- Leased equipment

These exceptions are not common since the University has title to the vast majority of the equipment it acquires.

V. Responsibility

A. Department Responsibility

All DSU employees are responsible for protecting University property or federal government owned property entrusted to them. Deans, vice presidents, department heads, and department chairs (or similar titles for the administrative manager of each University organizational unit) are ultimately responsible for, and are held accountable for assuming proprietary control of all equipment and other fixed assets in their custody or assigned to their department. This includes establishing business practices and procedures for such equipment and other fixed assets that provide the following:

1. The proper care, maintenance, control, and reasonable safeguards to prevent loss, damage or theft of such equipment and other fixed assets.

2. The proper use of such equipment and other fixed assets. Such items should be used for University business purposes and in accordance with University policies and state and federal regulations.

3. The creation of procedures requiring initial screening before requisitioning equipment and other fixed assets to avoid duplicate purchases and verification that items ordered and received are in good operating condition.

4. The proper disposal of obsolete, unneeded, or inoperable fixed assets and other property in accordance with University policy. Department heads may transfer to another University department or location but cannot sell or donate property to an individual or commercial firm. Departmental procedures should ensure that a **Property Change Form** is submitted to the Fixed Asset and Inventory Manager prior to the disposal or transfer of an asset.

5. Theft of equipment and other fixed assets as well as equipment or fixed assets lost or destroyed as a result of a casualty should be reported to the following:

   - DSU Public Safety
   - Internal Audit

- Fixed Asset and Inventory Manager
- Risk Management

If the items involved are sponsor-funded equipment, the Principal Investigator or Program Director and the Office of Sponsored Programs should also be notified.

6. Report inventory items received through means other than a purchase to the Fixed Asset and Inventory Manager.

7. Ensure that for all equipment that is to be traded in against a new piece of equipment, the purchase requisition clearly designates the identification number of the equipment to be traded in. A completed Property Change Form should be forwarded to the Fixed Asset and Inventory Manager.

B. Controller's Office Responsibility

The University Controller is responsible for the coordination, development, and implementation of the policies and procedures that relate to fixed assets and comprise the University-wide property management system. More specifically, the Fixed Asset and Inventory Manager is charged with maintaining the Fixed Asset System and reconciling assets between and the system and general ledger. The responsibilities of the Fixed Asset and Inventory Manager include the following:

1. Initiate and control the collection of detailed demographic information (location, serial number, vehicle identification number, etc.) of all assets acquired by purchase, donation, fabrication, transfer, or other method of acquisition. This requires assistance from Central Receiving, who is responsible for the initial tagging of all equipment delivered to the University.

2. Coordinate the taking of annual physical inventories of equipment and certain other fixed assets, update the Fixed Asset System for the results of these inventories, and report the results of inventories to management.

3. Record disposals and related transactions (sales proceeds, gains or losses, and reduction of accumulated depreciation) for sales, write-offs, trade-ins, and other means.

4. Provide guidance to department designees and other University personnel related to fixed assets policies and procedures.

5. Maintain and record changes or updates as appropriate to assets in the Fixed Asset System and general ledger.

6. Reconcile the Fixed Asset System to the general ledger for all capital asset categories.

7. Provide deans, directors, department heads, and designees with accurate and timely information about equipment and other such assets under their control or assigned to their departments.

8. Prepare data on depreciation for the University's financial statements.

9. Assist in the preparation and completion of property information reports, as required by governmental entities, or state or federal auditors, etc.

10. Assist in the preparation and completion of inventory reports as requested by human resources for the purpose of clearing employees scheduled to separate from the University.

VI. Asset Categorization and Capitalization

Both **Capitalizable** and **Controllable** assets are tracked in the Fixed Asset System. Capital assets are tangible property items with a value greater than $5,000 and a useful life of more than one year. Controllable assets do not meet the University's capitalization criteria but are tagged and tracked for inventory purposes due to their sensitive, portable, or theft-prone nature. For accounting purposes, controllable property is not included in the fixed assets general ledger control accounts, nor included in the calculation of depreciation expense. Controllable property may include but is not limited to the following:

- Projectors
- Digital Cameras and Camcorders
- Laser Printers
- Computer Equipment (PCs, iPads, notebooks, and laptops)
- Weapons and Firearms
- Musical Instruments

A. Land

Land is considered to be inexhaustible real property and is therefore not depreciated. Land costs include initial purchase costs, surveying fees, appraisal and negotiation fees, legal and title fees, damage payments, site preparation costs (clearing, filling, and leveling), easements, and the assumption of any liens, mortgages, or encumbrances on the property. The demolition of unwanted structures that ready the land for the erection of a structure is also considered a part of land costs and is therefore capitalizable. Improvements to land that adds character and increases its utility should be capitalized as land improvements. See the following section for more information on items that qualify as land improvements criteria.

Land has no capitalization threshold and therefore, all land must be recorded in the Fixed Asset System. Land acquired by gift of bequest is recorded at the fair market value at the date of acquisition. Donations from related entities will be recorded at book value of the donating entity.

B. Land Improvements

Land improvements are depreciable improvements to land that add character and increase its utility. Improvements greater than $25,000 meets the threshold to be recorded as capitalized assets. Land improvements in this category include, but are not limited to:

- Landscaping
- Athletic fields and courts

- Swimming pools
- Parking lots
- Fencing
- Sidewalks
- Ponds

C. Infrastructure

Infrastructure is defined as long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples include water, gas, sanitary system, structural system, electrical system and lighting systems, roads, bridges, and telecommunications cabling. These assets are ancillary capital assets (ancillary to another asset i.e., land, building or a group of buildings) that increase the level of service of an existing capital asset. The threshold for capitalizing infrastructure is $25,000.

D. Buildings

A building is any structure erected to stand permanently and designed for human use or occupancy or as shelter for animals or goods. Each building is comprised of components such as fixtures, framing, interior finish, roof structure and cover, and building service systems (plumbing, sewer, gas, heating, ventilation, air conditioning, lighting, power, etc.).

The cost of a building includes its construction or purchase costs and the costs of all fixtures, machinery, and other appurtenances that cannot be readily removed without disrupting the basic building structure or services to the building. Purchase costs include original purchase price, expenses for altering a purchased building to make it ready to use for the purpose for which it was acquired, and any professional fees (appraisers, legal, architect, inspections, title searches, etc.).

When buildings are constructed, all identifiable costs to complete the project are included such as but not limited to contract costs, insurance, and interest costs incurred during the period of construction in excess of interest revenue on borrowed funds. Costs are accumulated in Construction-in-Progress until the date of receiving a certificate of occupancy.

Building improvements involving structural remodeling and renovations are capitalized when they enhance the use of, extend the life of the building beyond its original estimated useful life, or significantly increase the efficiency of the building. Building improvements are discussed further in the next section.

E. Building Improvements

A building improvement's primary purpose is to increase output, lower operating costs, improve working conditions, enhance the original quality, extend the useful life, or otherwise add to the worth of future benefits or utility expected to be received from the asset. The following expenditures are examples of improvements to buildings that are capitalized, if the cost of the improvement is valued at $25,000 or more:

- Conversion of attics, basements, etc. to usable office, clinic, research, or classroom space.
- Structures attached to the building such as covered patios, garages, carports, enclosed stairwells, etc.
- Installation or upgrades of heating and cooling systems.
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other framing.
- Installation or upgrade of window or door frames, upgrading of windows or doors, built-in closets, and cabinets.
- Exterior renovation such as installation or replacement of siding, roofing, masonry, etc.
- Installation or upgrade of plumbing system.
- Installation of upgrade of electrical system.
- Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, wiring required in the installation of equipment to a specific building (that will remain in the building).
- Additions (extension, expansion, or enlargement to an existing capital asset such as a second floor or new wing on a building).
- Other costs associated with the above improvements; i.e. architectural fees, construction management fees, etc.

Costs to maintain or alter capital assets that do not increase the future economic value of capital assets are considered to be a current period expense and are therefore **not capitalized.**

The following are examples of expenditures **not** capitalized as improvements to buildings and should be recorded as maintenance expenses or renovations not capitalized:

- Adding, removing, and/or moving of walls relating to minor renovation projects, which are not considered major rehabilitation projects and do not increase the value of the building.
- Improvement projects of minimal or no added life expectancy and/or value to the building.
- Minor HVAC, plumbing or electrical repairs.
- Cleaning, pest extermination, or other periodic maintenance.
- Interior decorations, such as draperies, blinds, curtain rods, wallpaper, etc.
- Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.
- Maintenance-type interior renovation, such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections, sink and fixture refinishing, etc.
- Maintenance-type exterior renovation, such as repainting, replacement of deteriorated siding, roof, or masonry sections.
- Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an old boiler with a new one of the same type and performance capabilities.
- Moving of furniture from one building to another during construction.

- Any other maintenance-related expenditure, which does not increase the value of the building.

F. Construction-in-Progress

This category includes all expenditures directly related to building construction, renovations, or additions. These costs include contract costs (materials, labor, and overhead) as well as professional fees and interest incurred during the construction period.

The Fixed Asset and Inventory Manager works with Facilities Management to determine when to capitalize these projects. Construction project costs are accumulated and reported in the “Construction-in-Progress” asset category until the project is substantially complete and the related asset receives an unconditional certificate of occupancy. Once the asset is put into service, the costs in the construction-in-progress account are reclassified to buildings, improvements, or infrastructure in the Fixed Asset System. Prior to completion and input into the Fixed Asset System, journal entries are prepared to update the general ledger for costs associated with the project.

G. Equipment

Costs of vehicles, furniture, and equipment include the total purchase price after discounts, plus any trade-in allowances, transportation charges, installation costs, and any other costs required to prepare the asset for its intended use. Vehicles, furniture, and equipment include but are not limited to the following:

- Cars
- Trucks
- Construction Machinery
- Computer Systems
- Printing Presses and Reproduction Equipment
- Tractors
- Buses
- Telecommunications Equipment
- Furniture

An asset with an associated attachment part which is necessary for the asset to function properly is considered to be one asset. The cost of the asset together with its attachment part(s), are subject to the capitalization threshold. Component parts are not necessary for the attached asset to function and are considered to be separate assets; therefore, the capitalization threshold should be applied to each asset.

Attachment example: A mainframe CPU with a cost of $4,000 and its associated cables costing $1,500, would qualify for capitalization as one asset since the cables are necessary for the computer to function properly and their combined cost exceeds the $5,000 capitalization threshold.

Component example: A new $50,000 air conditioner unit is purchased for a building that was purchased 10 years ago for $2,000,000. The air conditioner unit is considered to be a component of the building. Both assets exceed the capitalization threshold and will therefore be capitalized as separate stand-alone assets.

Equipment meeting the definition of controllable equipment will be tagged with a unique bar code identifying the asset as property of the University. However, the equipment will be not be capitalized.

H. Library Books

Library books with a useful life of more than one year and a value greater than $5,000 are capitalized. They are reported on an individual basis; and therefore, each unit must meet the capitalization threshold before being capitalized.

I. Works of Art and Historical Treasures

Governmental units are exempt from capitalizing collections if the following conditions are met:

- The collections are not held for financial gain but for public exhibition, education, research, or other reason of public service.
- The collections or individual items are protected, cared for, and preserved.
- The collections are subject to an agency policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Delaware State University has elected not to capitalize collections to expedite the completion of the Comprehensive Annual Financial Report (CAFR) each year. By not capitalizing collections, DSU will also reduce the amount of time and effort required to maintain this information in the Fixed Asset and Inventory Management System. However, these assets are treated as controllable assets and tracked in the system for inventory purposes.

J. Software

Computer software developed or obtained for internal use should be capitalized if the cost is $100,000 or more and has a useful life of greater than one year. DSU’s Information Technology Department will review all hardware and software prior to procurement to ensure the equipment and software is compatible with the University's ability to manage and support, is configured correctly, and all appropriate security measures are addressed. Software may carry a licensing and periodic maintenance fee. These and products similarly categorized should not be capitalized.

While a licensing agreement and maintenance fee itself would generally not be capitalized, any significant costs incurred to customize the software to meet the needs of the University should be capitalized.

Software development generally involves the following three phases:

- Preliminary phase – conceptual formulation of alternatives, evaluation of alternatives, determination of existence of needed technologies, and final selection of alternative.
- Application development stage – design of chosen alternative, including software configuration and interfaces, coding, installation of computer hardware, and testing.
- Post implementation – training and application maintenance activities.

Costs associated with the preliminary and post implementation phases are expensed as incurred. However, costs associated with the application development stage are capitalized. Examples of expenses that should be capitalized during the application development stage include:

- External direct costs of materials and services consumed in developing or obtaining internal-use computer software (fees paid to third parties for services), costs of computer software, and travel expenses of employees incurred in their duties directly associated with developing the software.
- Payroll and payroll related costs for employees who are directly associated with and devote time to the internal-use software development.
- Interest costs incurred while developing the software.

VII. Capitalization Threshold

Assets meeting the following thresholds with a useful life of more than a year are required to be capitalized and tracked in the Fixed Asset System for reporting purposes.

- Land – all land
- Land Improvements and Infrastructure – $25,000
- Buildings and building improvements - $25,000
- Equipment/Vehicles/Furniture - $5,000
- Software - $100,000
- Library Books - $5,000

VIII. Depreciation

Depreciable capital assets include all capital assets except land, construction-in-progress, works of art, and historical treasures. Depreciation is calculated using the straight-line method over the applicable useful life of the asset with no salvage value.

Depreciation of capital assets begins in the month following acquisition and ends following the month of disposal or end of the assigned useful life. The acquisition date for capital projects is the beneficial occupancy date. The Fixed Asset System calculates the monthly depreciation amount and generates a journal entry which is posted to the general ledger.

Depreciation is recorded based on the following estimated useful lives:

- Land Improvements and Infrastructure – 25 years
- Buildings and building improvements - 50 years
- Equipment/Vehicles/Furniture - 7 years
- Software - 5 years
- Library Books - 5 years

IX. Asset Management

a. Delivery and Tagging of Equipment

All equipment, regardless of the source of funding should be delivered to DSU Central Receiving. Under no circumstances should equipment be shipped to an address outside of the University's control (outside business or personal address). When received, Central Receiving will affix identification tags to each asset unless it is not physically practicable. During the tagging process, Central Receiving verifies the description of the asset and collects additional information such as serial number, model number, vehicle identification number, manufacturer's name, and location to be entered in the Fixed Asset and Inventory System. Attachments of an asset will be identified with a related asset number. The Fixed Asset and Inventory Manager should be notified of any movement or transfer any assets from one location to another.

b. Property Inventory

On an annual basis, the Fixed Asset and Inventory Manager will provide departments with a list of property recorded in the Fixed Asset System for their respective locations. Department heads or designees must certify whether or not the assets listed as inventory are located in their departments. Documentation, such a property change form or police report, must be provided for equipment found to be missing during the inventory process. In addition to the annual certification by department heads, the Fixed Asset and Inventory Manager will select departments for physical inventory inspections that will be performed at least once every two years. Results of the physical inspections and departmental certifications will be reconciled with equipment records in the Fixed Assets System. Any differences between quantities determined by physical inspections and certifications and those shown in the Fixed Asset System shall be investigated to determine the cause.

c. Transfers and Disposals of Fixed Assets

- Department heads or designees are responsible for notifying the Fixed Asset and Inventory Manager by submitting a **Property Change Form** prior to any disposals or transfers of assets. After forms are processed to dispose or retire assets in the System, Central Receiving will pick up and properly dispose of all capital assets.

- Fixed assets deemed lost, obsolete, sold, stolen, or otherwise disposed are retired from the active fixed asset listing. DSU responsible personnel and/or their designee are responsible for taking appropriate action and maintaining documentation to support the disposal or transfer of an asset which includes the following:

- Stolen and/or missing assets - custodian is responsible for contacting DSU Police and retaining a copy of the police report. A copy of the police report **must** be mailed or faxed to Fixed Asset and Inventory Management section. The Fixed Asset and Inventory Manager should reference the police report number on the disposal form.

- Assets destroyed or lost due to fire, flood, etc. - custodian **must** report to Risk Management with a reference date of loss on disposal form.

- Transfers and disposals of obsolete equipment - custodian **must** submit Property Change Form to the Fixed Asset and Inventory Manager.

- Trades - custodian **must** submit Property Change Form to the Fixed Asset and Inventory Manager.

d. **Maintenance of Logs for Shared Equipment**

To ensure the physical location of equipment is tracked at all times, a person designated by each department head is responsible for maintaining a log (see Appendix III) of equipment shared or transferred from its original location on record.

e. **Impairment of Capital Assets**

An asset is impaired when there is a significant and unexpected decline in the service utility of an asset. An impairment of a fixed asset is caused by a prominent event or circumstance that is conspicuous or known to the entity. Facilities Management is primarily responsible for performing an annual assessment to determine whether an impairment of capital assets has occurred. Department heads or designees can also notify the Controller's office if they become aware of impairments to capital assets, particularly in the equipment category. Results of the annual impairment assessment performed by Facilities Management should be reported to the Controller and Fixed Asset and Inventory Manager as soon as possible. Common indicators of impairment include:

- Physical damage, such as a building damaged by fire or flood, which requires significant costs to restore the asset's service utility.
- Changes in laws or regulations that limit or curtail the use of a capital asset, such as a water treatment plant that does not meet, and cannot be modified to meet, new standards.
- Technological development or evidence of obsolescence.
- A change in a manner or expected duration of use of a capital asset, such as closure of a University program/ department prior to the end of its useful life.
- Construction stoppage due to lack of funding.

A decrease in the use of capital assets is not, in itself, considered a separate indicator of impairment unless it is associated with one of the items listed above. However, if the decline in service utility is significant and unexpected, it is likely that impairment has occurred. At this point, it must be determined if the impairment is considered permanent or temporary. A final determination of impairment for financial statement and reporting purposes will be made by the Controller's Office in consultation with Facilities Management.

Assets that are impaired and taken out of service permanently should be carried at the lower of carrying value or fair value, with no further annual depreciation expense. Capital assets impaired from construction stoppage should also be reported at the lower of carrying value or fair value.

Appendix I

Chart of Asset Accounts

FIXED ASSET CODING STRUCTURE

Asset Account Type	Asset Account	Expense Account	Depreciation Expense Account	Accumulated Depreciation	Useful Life
Land	1600	8656	NA	NA	NA
Land Improvements	1605	8654	8255	1685	25
Buildings & Improvements	1610	8600	8255	1680	50
Building Construction	1610	8601	8255	1680	50
Building Purchases	1610	8602	8255	1680	50
Furniture and Equipment (including controllables)	1620	8615	8255	1681	7
Construction In Progress	1679	8600/8601	8255	NA	NA
Computer Equipment	1644	8604	8255	1681	7
Software	1645	8612	8255	1681	5
Library Books	1650	8660	8255	1682	5
Infrastructure	1655	8662	8255	1685	25
Vehicles	1670	8670	8255	1684	7

Appendix II

Property Change Form

Delaware State University

MAKING OUR MARK ON THE WORLD

DSU Central Receiving
Property Change Form

Instructions: This form is used to obtain the information necessary to monitor assets to and from your department. Central Receiving will dispose of all DSU assets. This form must be completed, signed and emailed to kpringle@desu.edu or faxed to Central Receiving at 302.857.7891. Incomplete forms will be returned to your department for proper completion.

Check reason for change:

Transfer: ____ Obsolete: ____ Stolen/or Missing: ____Sold: ____

Traded-In: ____Destroyed: ____ Disposed: ____ Off-Campus Usage: ____

Other (explain):____

- A police report must be filed for stolen and/or missing items and maintained as supporting documentation. A copy of the police report must be emailed to fiqbal@desu.edu, Fixed Asset and Inventory Manager. When recording the disposal of the stolen assets, you must include the police report number on the disposal form.
- Assets destroyed-loss due to fire, flood, etc. must be reported to DSU Risk Management section with a reference date of loss.

Department Information:

From Department Name/Account No.:____

Building and Room No.:_________________________

To Department Name/Account No.:____

Building and Room No.:_________________________

DSU Property Information:

DSU Tag No.	Description (Make/Model/#)	Serial No.	Estimated Age	Purchase Order No.	Cost	Condition

Completed by Name: ___________________________Title____________________ Date_________

Dean/Chair/Vice President Signature Required

Central Receiving Name: ________________________Title____________________ Date_________

Updated: 8/8/2012

Appendix III

LOG SHEET FOR SHARED EQUIPMENT

Date	Department Name	Barcode No.	Description	Transfer From/Current Location	Transfer To/New Location	Signature Of Person Receiving Equipment	Department Designee Signature