University Enterprises, Inc. Policies and Procedures		Policy No. **2010**
Section:	Business Services	
Policy:	Fixed Asset and Intangible Asset Policy	
Effective or Revised:	December 11, 2015	

University Enterprises, Inc.
Fixed Asset and Intangible Asset Policy

I. PURPOSE

To provide management with policy and regulations governing the acquisition and disposition of UEI fixed assets and intangible assets.

II. SCOPE

This policy applies to all UEI personnel.

III. POLICY

I. Background and Purpose

As a general rule, a large expenditure should be capitalized if it benefits future accounting periods and/or extends the useful or productive life of an asset. Capitalized expenditures are categorized as Fixed Assets and Intangible Assets. Assets are long-lived assets acquired for use in the operation of the business and are not intended for resale to customers. The most common examples of fixed assets are land and land improvements, buildings, leasehold improvements, furniture and fixtures, office equipment and automobiles. Intangible assets are assets which are used in the operation of the business but which have no physical substance and are noncurrent assets. Leading examples are: goodwill, leaseholds, copyrights, franchises, licenses and trademarks.

UEI is committed to properly evaluating the economic feasibility of all proposed capital expenditures or acquisitions. Short-term and long range planning shall be utilized to ensure that investments in capital assets contribute to the organization's overall profitability.

UEI is also committed to establishing and maintaining uniform accountability for UEI fixed assets and intangible properties. Standards shall be established to provide accurate accounting records for the acquisition, maintenance, control and disposition of properties. Strong internal controls shall be maintained to protect against loss and unauthorized use of these UEI assets.

II. Policy and Regulations

A. Policy Provisions

1. Investments in capitalized assets should contribute to the organization's missions and goals. A cost benefit analysis may be required by the Executive Director or Chief Financial Officer (CFO) to ensure that the expected benefit derived from the purchase or acquisition of certain assets will equate to a positive, annual net cash flow over time. Typically, proposed capital expenditures and acquisitions will be included in the annual budgetary process.

2. The UEI Board of Directors must approve all budgeted major capital expenditures, which is normally done through the annual budget process. Unbudgeted capital expenditures greater than $25,000 require the approval of the Chair of the Budget and Finance Committee. The approval of UEI's Executive Director is required for acquisitions greater than $10,000 whether budgeted or unbudgeted.

3. The cost of a fixed asset should be accurately reported. The value capitalized is cost, if purchased, or estimated market value as of the date of receipt if acquired by gift or grant. Total cost includes all expenditures reasonable and necessary in acquiring the asset and placing it in a position and condition for use in the operations of the business. The cost of assets shared by different departments should be split proportionately.
4. A fixed asset must have an expected useful life greater than one year. The useful life assigned to an asset should be applied consistently within other UEI fixed asset categories. Buildings and equipment should be depreciated over their estimated useful lives using the straight-line depreciation method. Leasehold improvements should be amortized using the straight-line method over the term prescribed in FAS 13 (i.e. estimated useful life or the term of the lease depending on the type of the lease and the conditions met or not met under paragraph 7 of FAS 13).
5. An intangible asset must benefit future accounting periods, and the cost of an intangible asset should be accurately reported. The cost capitalized typically includes the purchase price, legal and government fees, registration fees as well as similar costs. The period of amortization is generally based on the estimated period of benefit, but not more than 40 years, using the straight-line amortization method.
6. The Executive Director and/or UEI Directors, or their designees must approve all capitalized asset purchases and dispositions.
7. Appropriate bid information or sole source justification should be obtained prior to purchase (see UEI Purchasing Policy).
8. All fixed assets must be inventoried annually by department managers. Assets not in use or idle for an extended or indefinite period of time, and obsolete assets should be removed from inventory. Department managers are responsible for notifying Business Services of equipment transfers, dispositions and lost or stolen properties when they occur.
9. Department managers are responsible for disposing of damaged or unused furniture, fixtures and equipment, although the Property Services Department may be able to provide assistance. (The Executive Director must approve major dispositions where losses on disposal occur.) An effort should be made to ensure that residual or salvage values are effectively realized, and all cash proceeds should be deposited immediately with UEI.
10. Business Services is responsible for the accuracy of the accounting records as reported by department managers and the tracking of equipment in accordance with policy regulations. Adjustments to property subsidiary records should be reviewed and approved by the Controller or the CFO.
11. All UEI capitalized assets shall be adequately insured to cover total estimated replacement values or fixed costs. Maintenance contracts for large equipment purchases should be obtained by UEI directors when appropriate.
12. Fixed assets purchased with grant/contract funds are expensed to the grant. Unless legally restricted in the grant/contract document, fixed assets purchased through programs administered by Sponsored Programs Administration (SPA) will be transferred to the University. The fixed assets transferred become the property of the University, so UEI has no

responsibility to inventory or insure these assets, except for federal funds as discussed on page 6, #16. The CFO must approve exceptions.

13. Gains and losses on assets sold or retired should be reported in the operating funds.

B. Regulations

Consistent with the policy provisions in Section A above, the following regulations apply to UEI purchases:

1. Capitalized asset item purchases greater than $5,000 must be approved by the appropriate UEI Director or designees. If the purchase was not pre-approved through the annual budget process, Executive Director approval must also be obtained.
2. Bulk purchases of furniture, fixtures and equipment that total more than $7,500 should be capitalized and depreciated in accordance with the depreciation schedule. (Bulk purchases are defined as the purchase of more than one item with values each totaling less than $5,000, when the total purchase is greater than $7,500.) The bulk purchase must be approved by the appropriate UEI Director or designee(s) prior to purchase and should include proper bid documentation. Executive Director approval is also required if the purchase was not pre-approved through the budget process. Bulk purchases capitalized must be inventoried annually. Split purchase orders are not allowed, when created in order to circumvent this regulation.
3. Fixed asset purchases over $100,000 per item or in bulk (excluding programs administered by SPA) should be approved by the UEI Board of Directors. The approval is normally obtained through the annual budget process.
4. Small furniture, fixtures and equipment totaling less than $5,000 per item or less than $7,500 per bulk purchase should be charged to small equipment expense in the current accounting period. For example, a bulk purchase of office chairs under $7,500 should be charged to small equipment.
5. Also, purchases of keyboards and trays, panels, tack boards and lighting for existing workstations should be charged to small equipment. If these items were included in the original purchase or construction of new workstations, the costs should be capitalized along with the other costs.
6. Computer CPUs and monitors purchased together as one unit over $5,000 should be depreciated and inventoried. Bulk purchases of computers that are going to be split between departments, where the individual items charged to a department are less than $5,000, should all be coded to small equipment expense. For example, one department receives a monitor and another department receives the CPU. The computer costs charged to small equipment expense will be inventoried, however, by tagging and tracking at a zero dollar value.
7. Dispositions of capital assets must be approved by the appropriate UEI Director, or designee. Disposition of major assets that result in a loss on disposal per item of $5,000 or more must also be approved by the Executive Director or designee.

8. Capital Cost Valuation

   The cost of an asset to be capitalized is equal to the cost necessary in acquiring the asset plus any other costs necessary to make the asset ready for use, such as:

   Land – The amount capitalized includes the purchase price, commissions to real estate brokers, escrow fees, legal fees for examining and insuring the title, delinquent taxes paid by the purchaser, and fees for surveying, draining, clearing, grading and landscaping the property. Land is a non-depreciable asset, since it has an unlimited life.

   Land improvements – Improvement costs to real estate such as driveways, fences, parking lots, and sprinkler systems have a limited life and are therefore capitalized and subject to depreciation.

   Buildings – The amount capitalized includes materials and labor, architectural and legal fees, interest expense and insurance costs during the construction period, and building permits.

   Leasehold improvements – Buildings or other improvements constructed on leased property by UEI should be capitalized as Leasehold Improvements and depreciated over the remaining life of the lease or the estimated useful life of the building, whichever is shorter; or over 5 to 10 years depending on the nature of the improvement and the type of lease.

   Furniture, fixtures, equipment and automobiles – The amount capitalized is equal to the cost necessary in acquiring the asset plus any expenditures for freight, insurance while in transit, installation, and any other costs necessary to make the asset ready for use.

   Intangible assets – The basis of valuation for intangible assets is cost. The capitalization of these assets is justified only when there is good evidence that future earnings will be derived from these assets and only if a direct expenditure has been incurred.

9. Depreciation Method

   Annual depreciation expense is based on the straight-line method and is calculated based on the following time frames and equipment type.

For Items Purchased Between	Depreciation Expense Taken Will Be
July 1 – September 30	Full Year
October 1 – December 31	Half a Year
January 1 – March 31	Half a Year
April 1 – June 30	None

Note: The purchase date is the <u>invoice date</u> and not the date of order.

Equipment Category	Object Codes	Current # of Years
Automotive Equipment	1531	3-5
Building Remodeling/Improvements	1523,1524,1551,1552	Note #1
Buildings	1551, 1517	40
China and Utensils	1548	3
Computer Equipment, incl., Printers	1571	3-4
Packaged Software	1581	4-5
Construction-in-progress	1511, 1516	Note #1
Heating and Air Conditioning Units	1571	10-12
Equipment (Copy and Fax Machines, Cash Registers, and Other Equipment)	1571	3-8
Furniture and Fixtures	1571	8-10
Land	1501	N/A
Leasehold Improvements	1522	Note #2

Note #1, No depreciation expense will be taken until the construction is complete.
Note #2, depreciate over the remaining life of the lease or the estimated life of the building, whichever is shorter; or over 5 to 10 years depending on the nature of the improvement.

10. Equipment Disposals/Transfers/Stolen – Department managers are responsible for notifying Business Services of all equipment transfers or disposals as they occur. An "Equipment Disposal/Transfer Notification" form should be completed to include asset description, asset tag number, serial number, effective date, locations to/from, reason for disposal, etc. The completed form, along with the UEI asset tag(s) should be submitted to Business Services monthly. A Department Director should approve all disposal and transfer requests. The Executive Director should also approve disposals of assets with a loss on disposal of $5,000 or more per item.

    Stolen Equipment – Immediately after determining that the equipment is stolen, please contact the CFO. The CFO will contact the insurance carrier and complete the necessary paperwork.

11. Business Services shall keep accurate detailed subsidiary ledgers for each asset in use, including fully depreciated assets. The record for each item should include description of the asset, its location, date of purchase or construction end date, identifying number, cost, and depreciation or amortization method, depreciation/amortization for the period, and accumulated depreciation or amortization. Subsidiary records should be updated for the cost of additions and disposals regularly, and updated for depreciation for the period. Subsidiary records should be reconciled to the general ledger at least quarterly.

12. Fixed asset inventory will be taken by Department Managers, or designees, annually and approved by a UEI Director. The accounting records should be updated accordingly. Business Services will verify the annual inventory submitted on a sample test basis. Business Services will also tag most equipment upon purchase, except computer equipment and equipment held offsite. Information Technology will tag computer equipment, and Business Services will send to the Department Managers asset tags to be affixed to assets held offsite. Inventory tags should be affixed to an accessible, but inconspicuous, location on the asset.

13. Capital assets and "sensitive" equipment under $5,000 must be tagged and tracked. Sensitive equipment includes but is not limited to: laptops, printers, computers, monitors, digital cameras, digital memory devices, tablets, etc.
14. Any device capable of storing sensitive information may be used only if it has proper identification including asset tag or assigned asset tag number. These assets must be categorized, inventoried and protected throughout their life cycle from origination to destruction.
15. Business Services should provide UEI's insurance carrier with a list of capitalized assets annually. Maintenance contracts on large equipment should be re-evaluated at contract expiration by a UEI director to determine if coverage and cost is still appropriate.
16. Fixed assets purchased through programs administered by SPA greater than $5,000 per item should be transferred to the University at least quarterly, unless legally restricted in the grant or contract document. Bulk purchases greater than $7,500 should also be transferred. These assets are not capitalized or insured by UEI, unless approved by the CFO. If the asset is restricted and the contract/grant period is greater than one year, UEI should track (and tag if possible) the asset until the contract/grant period ends and final disposition occurs. SPA should notify Business Services which assets should be tracked. SPA should also notify Business Services and the appropriate agency when final disposition takes place.

The assets purchased using federal funds greater than $5,000 should be transferred to the University. These assets should be earmarked and tracked by Business Services. Business Services should request from the University on an annual basis the inventory of federal assets transferred. Business Services should conduct a surprise count of a sample of these assets annually to ensure that the University is appropriately inventorying the assets purchased with federal funds.

C. Implementation

The Executive Director is charged with the responsibility of implementing this statement through management guidelines.

IV. RELATED POLICIES

Policy #2005 Expenditure Policy

Policy #2025 Purchasing Policy