POLICY STATEMENT

The University has a significant investment in fixed assets (land, buildings, fixed equipment, infrastructure, and moveable equipment) used to carry out its instruction, research, outreach or public service missions. The University follows the same basic procurement policies and procedures for the purchase of equipment and other fixed assets as it does for any other purchase of goods and services. However, additional special procedures must be followed to meet all state and federal regulations related to fixed assets. This policy addresses the basic requirements for fixed assets but does not address all specific regulations, especially those processes related to the approval, authorization, and appropriation of building construction or capital outlay projects. In addition to land, buildings, improvements and equipment, the University will maintain an inventory of all controllable items as defined below. Items owned by faculty, students, and staff are not to be included.

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DEFINITIONS

Capitalizable Assets: A fixed asset with an expected useful life of greater than one year and the asset individually has a value or cost of $5,000 or greater at the date of acquisition.

Construction in Progress: A reporting classification that represents a temporary capitalization of labor, materials, and equipment of buildings or other capital assets (capital projects) that are being constructed.

Controllable Assets: Tangible property that has an expected life of greater than one year and value or cost less than $5,000 at the date of acquisition.

Fixed Assets: defined by five major asset categories:
• Land - All non-expendable, real property owned by Norfolk State University as evidenced by ownership title.
• Buildings - All real estate, excluding land, used for shelter, dwelling, and other similar agency purposes. The Statewide definition is any "roofed structure for permanent or temporary shelter of persons, animals, vegetation, or equipment
• Infrastructure (formerly Improvements Other Than Buildings). All improvements not specifically identifiable to an individual building, other than non-depreciable improvements to land parcels such as grading or filling expenditures. Included are agency-maintained infrastructure such as roads, bridges, curbs, surface gutters, street, sidewalks, drainage systems, parking lots, lighting systems and similar assets which, while not identifiable to any particular structure, nevertheless have a quantifiable value to the agency. Software and other intangible assets will be recorded as “Infrastructure” and not as “Equipment.” See CAPP Topic No. 30325, Software and Other Intangible Assets.
• Equipment (includes furniture, fixtures, books, and livestock)- agency property of any kind that is complete in itself; does not lose its identity or become a component of the building where it resides; and, is of a durable nature with an expected service life of more than one year. Works of art, historic treasures, and library books are classified in the equipment category.
• Construction in Progress- A reporting classification that represents a temporary capitalization of labor, materials, and equipment of buildings or other capital assets (capital projects) that are being constructed.

Intangible Assets: are assets having all of the following characteristics:

a. Lack of physical substance. Intangible assets are assets that do not have a physical existence. However, an intangible asset may be contained within an asset having a physical presence, such as, computer software contained on compact discs, hard-drives or tape media. Intangible assets may also be associated with other assets having a physical existence, such as, land in the case of a right-of-way easement or mineral rights.
b. Non-financial in nature. Intangible assets are non-financial in nature, and are not in a monetary form similar to cash or investment securities. Further, they are neither claims nor a right to assets in monetary form similar to receivables nor prepayments for goods or services.

c. Useful lives or benefit periods exceeding one or more years. Intangible assets as described in this policy are considered to have a useful life that is greater than one year. Intangible assets having a useful life of one year or less are not subject to the provisions of this policy.

CONTACT(S)

The Controller/Financial Services Office officially interprets this policy. The Vice President for Finance and Administration is responsible for obtaining approval for any revisions as required by BOV Policy # 01 (2014) Creating and Maintaining Policies  https://www.nsu.edu/policy/bov-01.aspx through the appropriate governance structures. Questions regarding this policy should be directed to the Controller/Financial Services Office. Questions concerning fixed assets procedures or documentation may be addressed to the Financial Services Personnel at FinancialServices@nsu.edu

STAKEHOLDER(S)

All University departments and organizational units.

FIXED ASSET ACCOUNTING: POLICY CONTENTS

The purpose of this policy is to ensure the University’s fixed assets are acquired, safeguarded, controlled, disposed of, and accounted for in accordance with state and federal regulations, auditor requirements, applicable accounting pronouncements, and in a manner that adequately supports the maximum recovery of Facilities and Administrative (indirect) costs associated with these assets. This policy applies to all fixed assets (land, buildings, infrastructure, and equipment) regardless of source of funds used to acquire these assets (including donated assets) and applies to all university departments that use, have custody of, or have been assigned responsibility for such fixed assets. See CAPP Manual 30205 for Commonwealth policies and procedures.

Ownership of Fixed Assets

All fixed assets (land, buildings, fixed equipment, infrastructure, and moveable equipment) 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 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 short-term loan from another institution
• Leased equipment.

These exceptions are not common since the University has title to the vast majority of the equipment it acquires. However, special procedures are required for the acquisition and disposal of federal government owned equipment and equipment purchased with the Commonwealth of Virginia’s Equipment Trust Fund program and these are explained in the procedures below.

Responsibility for Fixed Assets

I. Departmental Responsibility

All University employees are personally responsible for protecting University property or federal government owned property entrusted to them and for helping to protect all University assets in general. Deans, vice presidents, department heads, department chairs, and directors (or similar titles for the administrative manager of each University organizational unit and hereinafter referred to as “department heads”) 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 responsibility includes establishing business practices and procedures for such equipment and other fixed assets that provide for the following:

1. The proper care, maintenance, control, and reasonable safeguards to prevent loss, damage or theft of such equipment and other fixed assets. This is especially important for equipment purchased under the Equipment Trust Fund (ETF) program. Because such equipment serves as a security interest for the bonds issued for the program, ETF equipment cannot be disposed of during the first five years of ownership.

2. The proper usage 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 related to the acquisition of equipment and other fixed assets requiring initial screening to avoid the purchase of duplicative equipment is performed before requisitioning such equipment; verification steps are performed to ensure all items ordered are actually received and are in good operating condition; and assistance is provided to the Fixed Asset Accountant to complete the initial inventory of items acquired within 30 days of receipt for those items delivered directly to the ordering department, gather complete demographic information (location, serial number, etc.), and attach a barcode tag to the item whenever possible. Once the barcode tags are put on the equipment they should not be removed.

4. The proper disposal of obsolete, unneeded, or inoperable fixed assets and
other property in accordance with the #43-11 surplus property procedures as outlined on the NSU website at https://www.nsu.edu/policy-library/administrative-policy. Department heads may act to transfer property to another University department, but cannot sell or donate property to an individual or commercial firm. The departmental procedures for all disposals or transfers to other departments should ensure that the transfer or disposal forms for all such items are forwarded to the Fixed Asset Accountant for recording in Fixed Asset Module on a timely basis.

5. The reporting of thefts of equipment and other fixed assets to the NSU Police Department and Internal Audit as well as the Fixed Assets Accountant. In addition, equipment that is lost or has been destroyed as a result of a casualty (fire, flood, etc.) should be immediately reported to the University Police Department, Fixed Assets, and Risk Management. If the item(s) involved are sponsor-funded equipment, the Principal Investigator (PI)/Program Director (PD) and the Office of Sponsored Programs should also be notified.

6. Ensuring that a Loan of University Property Form is completed, with an electronic copy forwarded to the Fixed Asset accountant, for any equipment loaned to employees so that they may work on University business at home. Ensure that the form is properly authorized by the department head with a signed consent by the employee to return the equipment upon request or upon termination of employment. Include specific details about the equipment (barcode number, serial number, manufacturer, model number, cost, etc.), and have a department process to track all such equipment. Ensure that all loaned equipment is returned from any employee prior to termination of employment.

7. The designation of an equipment coordinator(s) for the department who will assist in the management and control of the equipment and other fixed assets assigned to the department, document and forward all inventory information to include location changes, surplus and disposal documents, and new equipment acquisition documents to the Fixed Asset Accountant within 30 days of the change. This individual will also act as the primary point of contact for the department during the University’s annual physical inventory process. The department head is responsible for communicating to the Fixed Asset Accountant any change of the equipment coordinator duty within the department.

8. Report any inventory items received through means other than purchase on an Inventory Change Form and forward to the Fixed Asset Accountant within 30 days of receipt so that they can be included in the inventory. A Deed of Gift Form will be completed for all donated items which meet the criteria stated under University Advancement Policy on Acceptance, Receipt, and Acknowledgement of Gifts. The Deed of Gift form and instructions are available on the NSU website and may also be obtained from the Financial Services Office, Suite 220, Harrison B. Wilson Hall.

9. Process all equipment that is no longer useable as surplus equipment. This newly processed surplus equipment must be reported on an Inventory Change Form which
is sent to the Central Warehouse. Warehouse personnel will then schedule a pick-up for these items.

10. 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 and states that it is to be traded. A copy of the Inventory Change Form must be attached to the requisition and a copy of the package must be forwarded to the Fixed Asset Accountant.

11. Report any leases that are entered into for facilities (e.g., storage facilities) or equipment (e.g., server farm computers) to the Fixed Asset Accountant and provide a signed copy of the executed document within 5 days of the execution of the lease. Note that the only individuals authorized to enter into lease agreements are the Vice President for Finance & Administration and the Director of Procurement Services (as designated by the Vice President for Finance & Administration).

II. 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 Accountant in the Financial Services Office is charged with the central responsibility to maintain and update the Fixed Asset Module within the University’s financial system and provide leadership in the accounting for and the control of all the University’s fixed assets. The responsibilities of the Fixed Asset Accountant are to:

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

2. Coordinate the taking of annual physical inventories of equipment and certain other fixed assets. Reconcile and update the fixed asset module for the results of these inventories and report the results to management.

3. Record disposals (and related sales proceeds, gains or losses, and reduction of accumulated depreciation) through sales, write-offs, trade-ins, and all other means for all fixed assets in the fixed asset module.

4. Provide guidance to departmental equipment coordinators and other University personnel related to fixed assets policies and procedures.
5. Maintain and record changes or updates as appropriate to the land, building, infrastructure, fixed equipment and moveable equipment records in the fixed asset module.

6. Reconcile the fixed asset module to the general ledger for all capital asset categories.

7. Provide deans, directors, and department heads 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. Enter all leases for buildings or equipment into the Department of Accounts Lease Accounting System (LAS) for determination of proper reporting category for financial statement purposes (i.e., operating or capital).

11. Prepare calculation for future minimum lease payments for the University’s financial statements.

12. Reconcile Central Warehouse receiving information to general ledger transactions.

III. Office of Sponsored Programs Responsibility

The Office of Sponsored Programs (OSP) is responsible for receipt, review and submission of principal investigator/program director prepared annual property reports required by awards from federal agencies (these reports are submitted on Federal forms such as the DD Form 1662 and NASA Form 1018) and other sponsor types as required by various sponsors. The Office of Sponsored Programs will provide copies of the reports to the Fixed Asset Accountant when the reports are submitted to the federal agency and other sponsor types. OSP is also responsible for requesting title for government or sponsor owned equipment at the end of the grant or contract (under the direction of the PI/PD); or when such equipment is no longer needed (as indicated by the PI/PD); or as required by federal regulations such as the Uniform Guidance or Federal Acquisition Regulations. The Fixed Asset Accountant and the principal investigator (PI), program director (PD) or other departmental personnel will ensure such items are still physically present and in good operating condition before the PI/PD requests that such equipment be transferred to another federally sponsored project.

IV. Risk Management Responsibility

The Office of Environmental Health, Safety & Risk Management is responsible for the conservation of agency resources, including fixed assets. These responsibilities include:
1. Ensuring adequate insurance coverage of the University’s buildings, major structures and valued contents based on data received from the College Fixed Asset Module and other recognized sources as provided by the Division of Risk Management (DRM).

2. Conducting risk analyses of proposed contractual obligations, new or potential financial threats to University personnel and assets.

3. Initiating liability claims against external entities and individuals who are implicated in the damage or value diminution of University fixed assets; and coordinating information accumulation from University Police Officers, faculty and staff, and negotiating with insurance carrier claim offices.

4. Developing required documentation to substantiate property damage claims to DRM in Richmond, which may involve debris removal, labor and materials for restoration in accordance with Commonwealth guidelines.

5. Contributing to the defense of University finances from liability claims alleging personal harm or property damage due to University acts of omission or commission.

6. Requiring proof of adequate financial resources from contractors in the form of certificates of insurance as a means of reducing the financial risk potential to the University.

7. Providing certificates of insurance which attest to the Commonwealth’s financial protection of the University from external entities in support of contractual relationships established for the benefit of the University.

Asset Categorization and Capitalization

The University is vitally concerned that all property of any substantial value is properly controlled and accounted for. However, because of the wide range in value and volume of different items owned by the University, it is neither practical nor economical to maintain elaborate inventory records for all categories of property and equipment. Two different categories of fixed assets are tracked in the Fixed Asset Module for all University-owned property, federal government-owned property, leased property and loaned property: capitalizable and controllable. Capitalizable property is all property that meets the University’s capitalization criteria. Controllable property is all property that does not meet the University’s capitalization criteria, but which the University is obligated to physically control (such as firearms, laptop computers, and musical instruments). These assets are in the fixed asset module with a flag of “N” meaning no in the Capitalized field, in order to distinguish them from capitalized assets. For accounting purposes, controllable property is not included in the fixed assets general ledger control accounts, nor is it included in the calculation of depreciation expense. Refer to CAPP manual 30305 for Commonwealth policies and procedures.
I. **Land, Buildings, Infrastructure, and Construction-in-Progress**

Generally, the acquisition of land, buildings, and infrastructure assets requires the special approvals, authorizations, and appropriations outlined in the Commonwealth of Virginia’s capital outlay projects policies and procedures. The Financial Services Office reviews all project expenditures and, working with Facilities Management staff, determines how 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 is actually put into service. Temporary occupancy and final occupancy documents are forwarded to Financial Services as part of the final review process for capitalization. Once the asset is actually put into service, the costs in the construction-in-progress account are reclassified into the various fixed asset categories and recorded in the Colleague Fixed Asset Module. The Financial Services Office does not record construction-in-progress in the Colleague Fixed Asset Module; however, journal entries are prepared to update the General Ledger with summary totals for each construction project to ensure proper financial reporting. Any additional costs necessary to reach final completion of the project will be reviewed for capitalization until the project is officially closed out. Capitalization for these categories follows. Refer to CAPP 30210, 30310, and 30405 for Commonwealth policies and procedures.

A. **Land**

1. Land acquired by purchase is recorded at cost and includes the amount paid for the land itself and all related acquisition costs. Land is considered to be an inexhaustible asset (with infinite life) and therefore is not depreciated. In addition to the costs of acquisition, the cost of land should include ancillary costs such as:
   - Legal and title fees,
   - Unpaid taxes assumed,
   - Surveying and recording fees,
   - Appraisal and negotiation fees,
   - Easements,
   - Damage payments,
   - Site preparation costs (clearing, filling, and leveling) and
   - Demolition of unwanted structures.

Those improvements that produce permanent benefits to the land, such as costs for fill and grading that ready the land for erection of a structure, or landscaping, are considered inexhaustible and are therefore capitalizable. However, they are not depreciable.

The cost of land does **not** include those expenditures made in connection with land improvements that are exhaustible (i.e. that deteriorate with use or the passage of time) or are part of an infrastructure asset such as paving, parking
lots and fencing. These fall in the category of infrastructure and are discussed in detail in Section C, below.

2. Land acquired by gift or bequest is recorded at the fair market value at the date of acquisition. Donations from related entities require the asset be recorded at the book value of the donating entity. Refer to CAPP 30210 for Commonwealth policies and procedures.

3. When land is acquired with buildings erected thereon, total cost is allocated between land and building in reasonable proportion at the date of acquisition. If the transfer document does not show the allocation, other sources may be used, such as an expert appraisal or real estate tax assessment records. Refer to CAPP Manual 30210 for Commonwealth policies and procedures.

4. Land improvements with an estimated life greater than one year will be capitalized. Examples of such improvements include (but are not limited to) landscaping, athletic fields, and tennis courts. Refer to CAPP 30310 for Commonwealth policies and procedures.

B. Buildings

1. Buildings acquired by purchase are recorded at cost and include all permanent structures and all integral fixtures, machinery, and other appurtenances that cannot be readily removed without disrupting the basic building structure or services to the building. The cost should also include professional fees for attorneys, appraisers or financial advisors, and any other expenditure necessary to put a building or structure within its intended state of operations. Refer to CAPP 30310 for Commonwealth policies and procedures.

2. Buildings acquired by gift or bequest are recorded at the fair market value at the date of acquisition. Donations from related entities require the asset be recorded at the book value of the donating entity. Refer to CAPP 30210 for Commonwealth policies and procedures.

3. When buildings are constructed, all identifiable costs 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 any borrowed funds. Costs are accumulated in Construction in Progress until the date of beneficial occupancy. Refer to CAPP 30210 for Commonwealth policies and procedures.

4. Structural remodeling/renovation and additions 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. Refer to CAPP 30405 for Commonwealth policies and procedures.
C. Infrastructure Assets

Infrastructure assets are long-lived and can be preserved for a significantly greater number of years than most capital assets and are normally stationary in nature. Examples include paving, roads, bridges, tunnels, utility distribution systems, water and sewer systems, parking lots, fencing and outdoor lighting. Infrastructure assets with an estimated life greater than one year will be capitalized. Refer to CAPP 30310 for Commonwealth policies and procedures.

D. Construction-in-Progress

1. Construction in progress 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. Refer to CAPP 30210 and 30310 for Commonwealth policies and procedures.

2. Upon completion, construction-in-progress costs are transferred to buildings, improvements or infrastructure. Refer to CAPP 30210 and 30310 for Commonwealth policies and procedures.

II. Repairs and Renovations

Significant costs incurred after an asset is acquired that increase the future economic benefits of the asset are capital expenditures. Future economic benefits are increased by extending the life of the asset, improving productivity or improving the quality of service. If the cost incurred was to maintain the asset, it is a current period expense. In addition to reviewing all project expenditures for capitalization, the Financial Services Office will review all maintenance reserve expenditures for potential capitalization. While it is anticipated that maintenance reserve expenditures would be for maintenance projects and would not generally be capitalized, there may be projects of a scope and design that would meet the future economic benefits test and be capitalized. Items meeting the criteria are allocated to the proper asset category(s) and recorded in Fixed Assets Module and capitalized in the general ledger control accounts. Refer to CAPP 30405 for Commonwealth policies and procedures.

III. Equipment – Capitalized

The University capitalizes moveable equipment and separately acquired fixed equipment that has an original unit cost of $5,000 or more and an expected useful life of greater than one year. The amount capitalized is the purchase price of the asset plus any cost necessary to prepare the asset for use, including shipping and installation. Vendor discounts are deducted, but trade-in allowances are not. Fixed equipment is generally of a configuration requiring contractor installation. Installation often includes charges for various permanent service connections, assembly, site preparations and other miscellaneous types of labor. These associated installation
costs, when properly documented, are included in the capitalized cost of newly acquired fixed equipment. **Refer to CAPP 30305 for Commonwealth policies and procedures.**

IV. Equipment – Controllable

Controllable equipment carried on the University’s inventory is generally defined as moveable, non-consumable items that are not permanently fixed or installed and that have a useful life of at least one-year. Microcomputers, laser printers, LCD projectors, digital cameras, camcorders and laptop computers with an initial purchase price between $500 and $4,999 will be included in the inventory as a controllable asset. In addition, equipment purchased with Equipment Trust Funds, firearms and musical instruments, regardless of initial cost will be considered controllable equipment. It is essential that all controllable assets for the University are accounted for at all times. Any equipment meeting the definition of controllable equipment will be tagged with a unique bar code label identifying the asset as property of the University. The tagging is generally done at the time the new item is delivered to the Warehouse. For controlled equipment received anywhere other than the Central Warehouse, it is the department’s responsibility to notify the Fixed Asset accountant of the receipt and location of the items within 30 days of delivery. **Refer to CAPP 30305 for Commonwealth policies and procedures.**

V. Library Books and Materials

VI. When library books and materials are considered to have a useful life of more than one year, they are capitalized. Because library collections consist of a large number of items with modest values, they are reported on a composite basis. The composite basis records net additions and deletions for both new books and materials and donated books and materials to reflect an overall increase or decrease in the value of the collection. Library books that are purchased for the collection will be depreciated over a 5 year period. Donated books that are catalogued into the collection will be valued based on the IRS value for used text books in “fair” condition and will be depreciated over a three year period. **Refer to CAPP 30310 for Commonwealth policies and procedures. Works of Art and Historical Treasures**

1. Works of art and historical treasures, whether they are held as individual items or in a collection, are capitalized if their purchase cost or fair market value at the time of donation is $5,000 or greater and they are not held as part of a collection as defined in section (2) below.

2. Items held as part of a collection as defined below will be included in the Fixed Asset Module as outlined in the Fixed Asset Policy, but will not be capitalized for financial statement purposes. A collection is defined as those items that are:
a. Held for public exhibition, education, or research in furtherance of public service, rather than financial gain;

b. Protected, kept unencumbered, cared for, and preserved; and,

c. Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections (see Section I, Policy Statement, above). Refer to CAPP 30310 for Commonwealth policies and procedures.

VII. Intangible Assets

Intangible assets consist of three, broadly-defined types as described below:

1. Intangible assets generally defined as “software.” Software intangible assets include computer “programming” or “coding language” that provide the necessary instructions for the computer hardware to perform a desired task or series of tasks. Software intangible assets include purchased “off the shelf” software, including all necessary modifications, software specifically developed by an outside contractor, and software developed internally by agency personnel, or acquired through any combination of the above.

2. Intangible assets associated with real property. These include “land use rights” such as easements, right-of-ways, water rights, timber rights and mineral rights that provide specific benefits related to the real property upon which the right applies. “Land use rights” may be defined generally as rights that provide the right to control the use of the real property (right of way) or provide other benefits derived from the real property (mineral rights, etc.).

3. Intangible assets that are not software or “land use rights.” Other types of intangible assets are those intangible assets that are not specifically identified in #1 or #2 above. These other types of intangible assets are generally created through the development of intellectual property and include patents, copyrights, and trademarks.

All intangible assets subject to the provisions of GASB No. 51 and having a cost (or estimated cost) of $5,000 or greater should be classified as capitalizable assets and recorded Fixed Asset Module. Refer to CAPP 30325 for Commonwealth policies and procedures.

VIII. Computer Software

1. Computer software developed or obtained for internal use should be capitalized if the cost of the license is $5,000 or more and the software license has a useful life of greater than one year and meets the conditions set forth below in section
(2). **Software or licenses purchased and placed into operation without modifications exceeding ten percent of the software purchase price should be considered an intangible asset.** This type of computer software is not considered to be internally generated, and therefore, the entire purchase price of the software is capitalized.

2. State agencies often acquire software systems from a vendor that may be customized or developed for their internal use. While the licensing agreement and fee itself would not generally be capitalizable, any significant costs incurred to customize the software to meet the needs of the University should be capitalized. Software is considered to be developed or obtained for internal use if both of the following tests are met:

   a. The software is purchased, internally developed, or modified solely to meet the entity's internal needs; and

   b. During the software’s development or modification, no substantive plan exists or is being developed to market the software externally.

Commercially available software purchased or licensed by an agency that requires modification by agency personnel or a third party and the cost incurred for the modification equals or exceeds ten percent of the total software acquisition cost before being placed into operation should be considered internally generated for purposes of **GASB No. 51.** For example, licensed financial accounting software that the agency modifies to provide special reporting capabilities and the cost of the modification equals or exceeds ten percent of the software purchase price would be considered internally generated.

3. Software development generally involves three phases, as follows:

   a. Preliminary project phase: Conceptual formulation of alternatives, evaluation of alternatives, determination of existence of needed technologies, and final selection of alternative.

   b. Application development stage: Design of chosen alternative, including software configuration and interfaces, coding, installation of computer hardware, and testing.

   c. Post-implementation/operation phase: Training and application maintenance activities.
4. Costs associated with the preliminary project and post-implementation/operation phases are expensed as incurred. Costs (internal and external) associated with the application development stage are capitalized.

5. Capitalization of costs begins when the preliminary phase is complete and the University’s management has implicitly or explicitly committed to funding a software project with the intent it will be completed to perform the planned functions.

6. Examples of expenditures that should be capitalized during the application development stage include:

   a. External direct costs of materials and services consumed in developing or obtaining internal-use computer software (e.g., fees paid to third parties for services provided to develop the software during the application stage), costs of computer software purchased from third parties, and travel expenses of employees incurred in their duties directly associated with developing software;

   b. Payroll and payroll-related costs (e.g., employee benefits) for employees who are directly associated with and devote time to the internal-use computer software; and

   c. Interest costs incurred while developing the software.

   Capitalization of such outlays should cease no later than the point at which the computer software is substantially complete and operational. Upon the conclusion of the software development project, the CIP should be reversed and the internally generated software asset should be recorded as a separate asset using the “infrastructure” category and appropriate nomenclature codes.

7. General and administrative cost and overhead costs are not capitalized; they are expensed as incurred. Refer to CAPP 30305 for Commonwealth policies and procedures.

IX. Leases

Computer equipment leases must comply with all the guidelines issued by the Department of Information Technology. Real property leases such as land and buildings must comply with guidelines issued by the Department of General Services (DGS) and should be approved by the Bureau of Real Property Management of DGS. Once entered into, all leases must be forwarded upon inception or renewal to the Fixed Asset Accountant by the responsible department. Financial Services will assign a control number and record the lease in the Lease Accounting System (LAS). Refer to CAPP 31205 for Commonwealth policies and procedures.
A. Capital Leases

Capital leases are recorded as debt on the financial statements. The payments (except for certain portions that are made for taxes, utilities, maintenance, insurance or any other executory costs) are recorded as retirement of debt and interest expense, and the asset is recorded on the balance sheet as an asset at year end. Leases that meet one or more of the following criteria will be classified as capital leases.

1. The lease transfers ownership of the property to the lessee by the end of the lease term.

2. The lease contains a bargain purchase option.

3. The lease term is equal to 75 percent or more of the remaining estimated economic life of the leased property, unless the beginning of the lease term falls within the last 25 percent of the total economic life of the leased property.

4. The present value, at the beginning of the lease term, of the minimum lease payments (reduced for executory costs and profit thereon) equals or exceeds 90 percent of the fair value of the leased property to the lessor, at the inception of the lease, less any related investment tax credit retained by lessor and expected to be realized by him. This criterion does not apply if the beginning of the lease term falls within the last 25 percent of the total economic life of the leased property.

B. Operating Leases

Lease payments associated with operating leases are recorded as an expense of doing business. There is no long-term debt associated with an operating lease and the asset under an operating lease is not recorded as an asset on the balance sheet at year end. An operating lease is any lease that does not meet any of the four criteria for a capital lease listed in section VI. A. above.

X. Surplus Property

Surplus property can be defined as property a department determines it no longer needs to continue its operation. Refer to CAPP 30705 for Commonwealth policies and procedures.

A. Turn in of Surplus or Obsolete Property

Obsolete equipment or items worn beyond repair can be classified as surplus and turned into the Central Warehouse. Surplus property can include computers/peripheral equipment, office equipment, furniture, fixtures, laboratory equipment, food service equipment, appliances, maintenance/shop equipment,
XI. Impairment Management

addition, made impairment considered impairment if inclusion, made impairment considered impairment.

Fixed the entity. is unexpected decline the impairment management asset. Any trade-in requisition: tag number, description, make, model, trade-in allowance. The department must also complete and submit an Inventory Change Form. Equipment Trust Fund equipment must be held by the department for a minimum of five years before it is surplused or traded in. Departments cannot trade in Equipment Trust Fund equipment without prior approval from the Fixed Asset Accountant.

B. Trade in of Surplus Property

Any items used as trade in on new equipment must be listed on the purchase requisition of the new items. The department is required to list the following on the purchase requisition: tag number, description, make, model, trade-in allowance. The department must also complete and submit an Inventory Change Form. Equipment Trust Fund equipment must be held by the department for a minimum of five years before it is surplused or traded in. Departments cannot trade in Equipment Trust Fund equipment without prior approval from the Fixed Asset Accountant.

XI. Impairment of Capital Assets

An impairment of a fixed capital asset is said to occur when there is a significant and unexpected decline in the service utility of the asset. An impairment of a fixed asset is caused by a prominent event or circumstance that is conspicuous or known to the entity. It is expected that such an event or circumstance would have been discussed by the management or the media. Any fixed asset impairment should be reported to the Fixed Asset Accountant as soon as possible. Common indicators of impairment include the following:

- Physical damage (i.e., fire, flood)
- Enactment or approval of laws/regulations or other changes in environmental factors
- Technological development or evidence of obsolescence
- Change in the manner or expected duration of a capital asset
- Construction stoppages (i.e., lack of funding).

If the decline in service utility is significant and unexpected, it is likely that an impairment has occurred. At this point, it must be determined if the impairment is considered permanent or if it is a temporary impairment. A final determination of impairment for financial statement purposes and CAFR reporting purposes will be made by the Financial Services office in consultation with Facilities Management. In addition, as part of the annual financial statement preparation process, Facilities Management will certify to the Financial Services office that no impairment has
occurred in the fiscal year or provide details of possible impairment for final determination. Refer to CAPP 30210 for Commonwealth policies and procedures.

XII. Useful Life and Salvage Value

The useful life of an asset is the period of time over which the asset will be depreciated. Salvage value of an asset is the estimated value it will have when it reaches the end of its useful life. Some assets are not likely to have a salvage value at the end of their useful life. The useful life of an asset and its physical life are often not the same. The Fixed Asset Accountant will record a useful life and salvage value for each asset entered into Colleague Fixed Asset Module based on the Commonwealth’s Fixed Asset Accounting and Control System (FAACS) nomenclature tables. Useful lives are based on guidelines provided in the Commonwealth Accounting Policies and Procedures (CAAP) Manual section 30605, and these are modified if actual experience at the University differs significantly from these guidelines. Refer to CAPP 30210 for Commonwealth policies and procedures.

XIII. 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 with no salvage value. Useful life is determined by commodity nomenclature codes developed by the Commonwealth of Virginia Department of Accounts or by the primary manager of the asset category. Depreciation begins in the month of acquisition, and ends in the month of disposal or at the end of the assigned useful life, whichever comes first. The acquisition date for capital projects is the beneficial occupancy date. Refer to CAPP 30210 for Commonwealth policies and procedures.

XIV. Non-Capital Expenditures

1. Expenditures for repairs, maintenance or replacement of components parts or accessories, which do not extend the unit’s original estimated useful life, significantly enhance its net value, or significantly improve its efficiency are non-capital expenditures. For example, assume an automobile has a useful life of five years. In the third year the engine is rebuilt so that the original life expectancy can be realized. The rebuilding of the engine is not a capital even if the total cost exceeds the $5,000 threshold, because the expected useful life of the automobile has not been extended beyond the original life expectancy.

2. Expenditures incurred in demolishing or dismantling equipment including those expenditures related to the replacement of units or systems are non-capital expenditures.

3. Expenditures incurred in connection with the rearrangement, transfer, or moving capitalized items from one location to another, including expenditures incurred in
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dismantling, transporting, reassembling and reinstalling such items in a new location are non-capital expenditures.

Refer to CAPP 30405 for Commonwealth policies and procedures.

XV. Delivery of Equipment

All equipment, regardless of source of funding, will be shipped to the Central Warehouse or to a location at the University or under the University’s control. Under no circumstances, will equipment be shipped to an address outside of the University’s control, i.e., an outside business address or a personal address.

XVI. Physical Inventory

The University will conduct a physical inventory of capital assets equipment every two years. The inventory team will be comprised of staff from the Office of the Controller/Financial Services department. All assets, regardless of source of funding, will be inventoried.

1. The inventory team will use the Colleague Fixed Asset Module Assets system by Department Report to verify the asset’s location. Colleague Fixed Asset Module Assets are tagged with Property Control Numbers and these numbers must check back to Colleague Fixed Asset Module listings.

2. Inventory teams will tag all fixed asset items and enter the property control number and other available information on Fixed Asset Inventory Log if items were not previously tagged and/or identified.

3. Any information necessary for the Fixed Asset Inventory Log that is not available on site will be researched by the Controller Office/Financial Services department.

4. Updated information will be entered into the Colleague fixed Assets Module by the Controller Office/Financial Services department.

5. Assets not found during the inventory process will be evaluated by management for actual or pending disposal. Assets pending disposal are assets not found during the current inventory. Disposal of these assets will occur only within a one year period in an effort to confirm nonexistence.
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EDUCATION AND COMPLIANCE

Asset stewards and supporting staff will be provided annual training to include how to conduct a successful physical inventory. To ensure conformity to the requirement of this policy, the Controller’s Office will monitor for compliance with this policy. Violations identified will be reported to the Vice President of Finance and Administration annually as part of the physical inventory cycle.

PUBLICATION

This policy shall be widely published or distributed to the University community and included in the online University Policy Library.

REVIEW SCHEDULE

• Next Scheduled Review: 04/06/2024
• Approval by President: 08/18/2014
• Revision History: 04/07/2009, 04/15/15, 04/05/16, 06/07/17, 04/06/2018; 12/16/2021
• Supersedes: NSU Policy # 41.215 Fixed Asset Accounting Policies and Procedures

RELATED DOCUMENTS

1. Physical Inventory Policy; Solicitation of Gifts Policy; Commonwealth Accounting Policy and Procedures (CAPP) Manual Section 30505
2. Procurement Services Administrative Policy # 43-11
   [https://www.nsu.edu/policy/admin-43-11.aspx]

FORMS

1. Loan of University Property Form – MyNSU- Under Financial Services
   [https://my.nsu.edu/faculty/ap/default.aspx]

2. Inventory Change Form - MyNSU- Under Financial Services
   [https://my.nsu.edu/faculty/ap/default.aspx]

3. Deed of Gift – MyNSU- Under Financial Services
   [https://my.nsu.edu/faculty/ap/default.aspx]