TABLE OF CONTENTS

1 INTRODUCTION

The purpose of this manual is to introduce fixed asset accounting concepts and to provide recommendations of policies and procedures to assist the University of the Virgin Islands ("University" or "UVF') in controlling the institution's capital assets. This manual will address policy and procedure recommendations for the acquisition, use, control, and disposal of assets.

1.1 IMPORTANCE OF ESTABLISHING A FIXED ASSET SYSTEM

Reasons for the establishment of a capital asset record are:

- Preparation of a financial statement.
- Audit compliance.
- Fire and casualty insurance valuation.
- Internal control accountability.
- Planning future replacement.

The fixed asset system refers to the auditor's opinion, based on an audit, of the statement's compliance with disclosure requirements. In order to secure an unqualified opinion of fixed asset accounting from an independent auditor, the University must establish and maintain detailed fixed asset records including historical cost and accumulated depreciation. Failure to comply with this requirement could result in a qualified opinion in the audit report and possible subsequent impairment of its bond rating.

Generally Accepted Accounting Principles (GAAP) define governmental fixed assets to include such items as land, buildings, improvements other than buildings (land improvements), infrastructure, fixtures, equipment, works of art, historical treasures, and construction in progress. Whether these fixed assets are categorized as General Fixed Assets, Enterprise Funds, or Internal Service Funds, they are to be reported at historical cost as directed in Governmental Accounting, Auditing, and Financial Reporting (GAAFR).

1.2 GASB STATEMENTS 34 AND 35

GASB Statements 34 and 35 require capital assets, including infrastructure, to be reported at historical cost, net of depreciation. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible (land) or are infrastructure assets reported using the Modified Approach as described in GASB Statement 34.

1.3 REPORTING CHANGES OF FIXED ASSETS

Prior to the issuance of GASB 34 and 35, an institution's capital assets were reported in the general fixed asset account group (GFAAG) for financial reporting purposes, and infrastructure did not need to be reported as a capital asset. In addition, depreciation of General Fund capital assets was not required because the GFAAG had no effect on the institution's net assets. Consequently, capital assets received limited audit scrutiny and most entities did not maintain reliable fixed asset ledgers. Depreciation was usually only reported for Enterprise and Internal Service Funds. Statements 34 and 35 eliminate the requirement to report GFAAG and the general long-term debt account group (GLTDAG). All capital assets and long-term debt are required to be reported in the government-wide statement of net assets. It is imperative for the University to develop a comprehensive approach for the determination of the cost and accumulated depreciation of its capital assets, including infrastructure, in order to avoid a significant decrease in net assets.

1.4 BASIS OF FIXED ASSET ACQUISITIONS

All fixed assets are to be recorded at historical cost at the date of the acquisition. Historical cost not only includes the purchase price or cost of construction, but also any other charges incurred to place the asset in service. Examples of capitalized costs include closing costs, surveying fees, land-preparation costs, architect and accounting fees, transportation fees, and optionally, interest costs.

1.5 ACQUISITION THRESHOLD AND REPORTING REQUIREMENTS

Not all assets are required to be reported on the University's balance sheet. Specifically, assets with extremely short useful lives and of minor value are reported as "expensed" assets in the period they are acquired. Fixed assets that are reported on the balance sheet are "capitalized." The capitalization threshold for the University is $2,499 for all assets. The capitalization threshold is established to provide appropriate financial and property controls of the University's assets. The threshold should be applied to individual fixed assets rather than to groups of fixed assets (e.g., desks, tables, chairs, etc.).

2 CAPITAL ASSETS

A Capital Asset is defined as a financial resource meeting all of the following criteria:

- It is tangible in nature.
- It has a useful life of greater than one reporting period (one year).
- Its unit cost, including freight and installation, exceeds $2,499
- It must be tracked for state or regulatory purposes regardless of its cost.

Further, it does not lose its identity through fabrication or incorporation into a different or more complex unit or substance (for example, computer memory chips or software are not typically considered to be capital assets).

The University has established the following asset categories for fixed assets:

Land - Non-depreciable assets comprised of owned land parcels and non-depreciable costs associated with preparing the site for development.

Buildings - Depreciable assets comprised of structures that at minimum consist of three walls, a roof, and at least one utility service (water, sewer, gas, or electric).

Land Improvements - Depreciable assets, including assets such as paving, outdoor lighting, irrigation systems, sidewalks, drives, fencing, and structures which do not meet the definition of a building.

Infrastructure - Depreciable assets providing a specific type of service or support to the entire campus, including assets such as water distribution network, sewer system, electrical distribution network, campus roadways, street lighting, fiber optic network, and telecommunications conduit.

Major Moveable Equipment - Depreciable assets, typically equipment and furniture items that are mobile in nature, have a useful life greater than one reporting period, and a cost equal to or greater than the capitalization threshold.

2.1 CAPITALIZATION THRESHOLD

The capitalization threshold for the University is $2,499 for all assets. The capitalization threshold is established to provide appropriate financial and property controls of the University's assets. The threshold is applied to individual fixed assets on a unit cost basis rather than to groups of fixed assets. For example, if the University purchases of 10 desks for a total cost of $16,000 the unit cost for each desk is $6,000 ($16,000/10 desks = $6,000). Therefore each desk should be recorded as an individual capital asset. If the University purchased 20 chairs for a total cost of $11,800, the unit cost is $590 ($11,800/20 chairs) and the chairs should not be recorded as capital assets.

2.2 CALCULATION OF COSTS

Capital Assets acquired by the University should be recorded at cost. Cost is equal to either the fair market value of the asset if it is being donated or the amount paid for the asset. In addition, ancillary costs associated with preparing the property for its intended use should be capitalized.

2.2.1 LAND

Original contract cost and related expenses such as brokers commission, legal fees for examining and recording ownership, cost of ownership guarantee insurance policies, cost of real estate surveys, cost of razing old buildings, structures, or other improvements acquired with the property, cost incurred to put property in condition for its intended use, including draining, clearing, landscaping, land filling, and grading costs. Excluded from the cost of the land are fees for ownership searches, expenditures in connection with disposal of refuse, costs of utility easements, and repairs to other improvements.

2.2.2 BUILDINGS

Original costs associated with a building includes:

- Original price of construction.

- Expenses incurred in remodeling, reconditioning, or altering a purchased building to make it suitable for the purpose for which it was acquired, cost of excavation, grading or filling of land as part of the construction of a specific building.

- Expenses incurred for the preparation of plans, specifications, blueprints, etc., cost of building permits, architects' and engineers' fees for design and supervision, other costs such as temporary buildings used during the construction period that are not moveable or reusable and are razed at the end of construction.

Exclusions - Excluded are extraordinary costs incurred in the construction of the building (e.g., costs due to strike, flood, fire, or other casualty), and the cost of abandoned construction.

The following items should be included as part of the building cost:

- Built-in casework
- Built-in shelving
- Bleachers and fixed gymnasium equipment
- Bathroom accessories
- Carpet
- Plumbing, sprinkler, heating, ventilating, and air conditioning systems
- Emergency generator systems for building support
- Built in public address systems
- Intrusion alarm systems
- Fire alarm systems
- Emergency lighting systems

If a building is purchased, an allocation must be made between the land, land improvements, buildings, and equipment as applicable. The generally accepted methodology is a pro-rata allocation of the asset's market value at the time of acquisition, based on the contributory value of each asset component.

2.2.3 LAND IMPROVEMENTS

These assets are improvements to a site, whether or not there is a building on the site, including: paving, fencing, playground, tennis courts, concrete walks and steps, outside lighting, outside plumbing, irrigation systems, signs, flagpoles, bleachers, athletic fields, swimming pools, walls, miscellaneous sheds and shelters, and fountains. The amount to be capitalized is the actual dollar cost of installation or acquisition of these assets at the acquisition date, including any labor and installation fees.

2.2.4 INFRASTRUCTURE

These assets are improvements to a site, whether or not there is a building on the site, and provide support to the entire development on the site. Infrastructure assets include water distribution system, sewer system, storm water drainage, electrical distribution system, roadways, street lighting, fiber optic networks, and telecommunications networks. The amount to be capitalized is the actual dollar cost of installation or acquisition of these assets at the acquisition date, including any labor and installation fees.

2.2.5 MAJOR MOVEABLE EQUIPMENT

The amount to be capitalized for major moveable equipment includes the original invoice cost, freight and storage charges, installation costs, and costs for testing and preparation for use. All costs incurred after acquisition but prior to placing in service to make a fixed asset ready for use should be capitalized as part of the cost of the asset, for example:

- Adding auxiliary equipment to a vehicle
- Installation and testing of radios, antennas, and other communications devices
- Installation and testing of electronic equipment
- Painting and application of logos, signage, etc.

Excluded is any trade in allowance.

In some instances, the cost of the property may not be available and some alternative basis must be used to record the capital asset. For example, the University may not have documented the original cost of the property, and it may be impossible or time-consuming to reconstruct the actual cost of the property. Under this consideration, the original cost of the asset may be estimated and used as the basis for capitalization.

2.3 CONSTRUCTION IN PROGRESS

A Capital Projects Fund is used to account for the construction of a Capital Asset. As construction progresses, the cumulative expenditures are capitalized as Construction in Progress (CIP) in the General Fixed Assets Account Group (GFAAG). Upon completion of the capital asset, the balance in the Construction in Progress account is transferred to the appropriate account such as Building or Equipment. Projects that have reached 100% completion are transferred. Projects that have not reached 100% completion will continue to be tracked as Construction in Progress. Interest cost incurred during the construction period is subject to capitalization as part of the cost of construction when conditions identified by FAS-34 (Capitalization of Interest Cost) exist.

2.4 WORKS OF ART

The University may capitalize works of art, historical treasures, and similar assets at their historical cost or fair market value at date of donation (estimated if necessary) whether they are held as individual items or in a collection. GASB Statements 34 and 35 encourage, but do not require, the capitalization of a collection (and all additions to that collection), whether donated or purchased, that meet all the following conditions. The collection must be:

- Held for public exhibition, education, or research in furtherance of public service, rather than for financial gain.

- Protected, kept unencumbered, cared for, and preserved.

- Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

2.5 SELF-CONSTRUCTED ASSETS

When the University uses internal staff, resources, equipment, and/or materials to construct a building or a piece of machinery, fixture, furniture, or equipment for its own use that meets the capitalization criteria, an acquisition cost will be established and the asset will be recorded in the fixed asset system as if it had been acquired. All direct costs, including materials and labor costs, are included in the total cost of the asset. Overhead (indirect) costs are not included unless they were incrementally increased by the construction of the asset.

2.6 IMPROVEMENTS OR BETTERMENTS

Proper accounting practice calls for the retirement of a component unit and capitalization of its replacement only if the replacement substantially increases the value, the capacity/capability, or useful life of the asset system. Otherwise, the replacement is treated as a maintenance expense. These guidelines should be applied on a consistent basis.

2.7 "ASSET SYSTEM"

Many assets consist of multiple components that make up the asset. This is particularly true for Personal Computer systems. The University has decided to control all Personal Computers as systems (CPU plus monitor, keyboard, and pointing device). A system has the following characteristics:

- It consists of multiple property sub-units that function together as a single fixed asset.
- Individual sub-unit costs are generally not significant compared to the cost of the entire system.
- Normally, individual sub-units would not meet the capitalization criteria. The grouping as a whole, however, qualifies as a Capital Asset ($2,499 acquisition cost, one-year useful life, etc.).
- When a sub-unit is replaced, it generally does not extend the life of the larger asset. Therefore, replacement would generally be treated as maintenance expense.
- Each sub-unit is integrated and configured in such a way as to make identification of individual components difficult. Therefore, it is impractical to tag, track, and inventory each sub-unit.

2.8 LEASED ASSETS

The National Council on Governmental Accounting (NCGA) requires that a lease agreement that satisfies the criteria established by FAS-13 be capitalized. FAS-13 states that non-cancelable leases that meet any one of the following criteria must be capitalized:

- The lease transfers ownership of the property to the lessee at the end of the lease term.

- The lease contains a bargain purchase option.

- The lease term is equal to 75% or more of the estimated economic life of the leased property.

2.9 REPAIRS AND MAINTENANCE

Ordinary repairs are expenditures made to maintain assets in operating condition. Replacement of minor parts, lubricating and adjusting of equipment, repainting, and cleaning are examples of normal maintenance and are treated as normal operating expenses. The major consideration in determining whether an expenditure should be treated as an expense or an improvement is if the expenditure increases the future service potential of the asset. If a major repair will extend the life of the asset several years it should be handled as an improvement. If the expenditure is a replacement the item(s) being replaced must be retired. Expenditures to repair and maintain a fixed asset in efficient operating condition without extending the asset's normal accounting life should be expensed.

3 ASSET TAGGING PROCEDURES

The University, using a unique asset tag number, will track each moveable equipment asset throughout its useful life. Each equipment asset that qualifies as a capital asset has a tag with a unique number applied to it during the initial inventory of assets, at the time of acquisition, or during an annual physical inventory. The benefits of an asset tagging policy include asset identification, property control, tracking of maintenance schedules, and loss prevention. For the University, these plastic tags are white with the following elements:

- Text identifying the asset ("University of the Virgin Islands")
- A machine-readable bar-code of the asset number
- The assigned asset number

In addition to the bar code, assets acquired with Federal Funds are identified with red plastic tags containing the text "UVI Federal Asset."

3.1 TAG PLACEMENT

In the implementation of a tagging system, one of the primary considerations should be the uniformity of tag location. While it is not necessary to deface any items of property by applying tags, the tags should not be so remotely placed as to create hardships in affixing or inspecting them. Every effort should be made to place tags on a particular item in a neat and orderly manner. Ease of access in the application as well as later inspections of the tags should be the guiding principle.

The following represents the suggested tag location for various types of assets. These locations should be considered standard. In those instances where an alternate location is called for, good judgment and common sense should dictate tag placement. Remember that the primary purposes of a tagging system are asset identification and tracking.

The asset categories and asset types listed in this summary will assist in determining the placement of tags. This list **should not** be considered an inclusive list of assets to be inventoried.

This manual generally calls for a right hand placement of property tags. Unless otherwise noted, right is defined as the right side of the asset as you are facing it.

4 ASSET ADDITION PROCEDURES

Purchase requisitions and purchase orders for Capital Assets will be processed in accordance with the University's procurement procedures as outlined below. All purchases will continue to be made using the organization's existing purchase requisition/purchase order system.

1. The requester fills out a Purchase Requisition form and forwards the request to the appropriate department head or his/her designee.

2. The department head, or the department head's designee, authorizes or denies the request. If approved, the requisition is sent to the purchasing department for processing.

3. The request is entered into the accounting system at the University. The following information must be entered:
   i. Account Number
   ii. Location identification (Department)
   iii. Description
   iv. Qualifying Federal Purchase

4. The Purchasing Department reviews the request and prints a Purchase Order. It is determined at this time whether the expenditure is a capital asset.

5. The asset is ordered from the vendor.

6. The asset is received in Central Receiving or delivered to the requesting department where the box is opened, the asset is inspected, and placed into service.

5 ASSET TRANSFER PROCEDURES

When an asset is transferred from one department to another, the originating department is responsible for initiating the paperwork for the transfer. This is accomplished by completing a Transfer Form notifying the Purchasing Office of the transfer. All Transfer Forms must include the signature of the Department Head of the department sending the asset. The Transfer Form must be sent to the Purchasing Department for input into the Fixed Asset System. Notification will include:

- Fund
- Originating Department
- Destination Department
- Asset Description
- Date of Transfer
- Asset Tag Number

As an alternative to using Transfer Forms, the University may elect to process transfers as a part of its annual physical inventory or by writing a memo including the appropriate information.

6 ASSET RETIREMENT PROCEDURES

The process of asset retirement begins with the asset's responsible department. Each department head is responsible for notifying the Purchasing Department of the retirement of an asset. Notification will include:

- Department/Location
- Asset Tag Number or Tag
- Reason for Retirement
- Date of Retirement

All retirements should have the reason for retirement and the appropriate documentation attached, such as: **Sold (bill of sale)**, **Stolen (police report)**, or Destroyed (department head approval).

The Purchasing Department should retain a copy of the retirements for use in the next annual inventory cycle.

7 DEPRECIATION

The usefulness of most assets, other than land, declines over time and **a** cost adjustment is needed to indicate that the usefulness of an asset has declined. Depreciation, the term most often used to indicate that tangible assets have declined in service potential, is the allocation of the cost of a Capital Asset over its estimated economic life.

With the implementation of GASB Statements 34 and 35, depreciation must be calculated for all depreciable Capital Assets. Depreciation will be calculated using the straight-line method, which is the standard practice in public sector accounting. The basis used in straight-line depreciation is the acquisition cost. Annual depreciation is calculated by dividing the basis by the useful life. The total amount depreciated can never exceed the acquired cost, less any salvage value if applicable. The University will recognize depreciation using the Half-Year Depreciation Convention. This means that one-half of the annual depreciation is taken in the year the asset is acquired, and one-half of the annual depreciation is taken at the end of its economic useful life.

EXAMPLE OF STRAIGHT LINE DEPRECIATION AND HALF YEAR CONVENTION

Asset Cost: 520,000
Economic Life: 5 years

	Original Cost	Annual Depreciation	Accumulated Depreciation	Net Book Value
Year 1	$20,000	$2,000	$2,000	$18,000
Year 2	$20,000	$4,000	$6,000	$14,000
Year 3	$20,000	$4,000	$10,000	$10,000
Year 4	$20,000	$4,000	$14,000	$6,000
Year 5	$20,000	$4,000	$18,000	$2,000
Year 6	$20,000	$2,000	$20,000	$0

8 PHYSICAL INVENTORY

8.1 PURPOSE

The purpose of this procedure is to establish the methodology for conducting and reporting the periodic physical inventory of the University's Capital Assets.

8.2 RESPONSIBILITY

The Purchasing Department will be responsible for:

I. Scheduling and coordinating the physical inventory to insure that it is completed within the scheduled time frame.
II. Conducting a thorough inventory in accordance with documented procedures.
III. Reconciling any exceptions, such that the result provides a complete accounting of all Capital Assets recorded in the Fixed Asset System.
IV. Documenting the inventory results and sending a written report to the Vice President for Administration and Finance indicating completion of the project and any exceptions.

8.3 INVENTORY PROCEDURES

A complete physical inventory of all capital assets will be conducted biannually. In off years, inventory will be conducted and additions will be added to the University's existing assets. In order to meet the reporting requirements of the University, the physical inventory counts/observations will be completed by September 30 and reconciliation completed by October 31 each year.

In order to conduct an effective physical inventory, the following data should be collected prior to the start of physical count:

- List of capital assets acquired since the previous inventory
- List of asset transfers since the last inventory, if available
- List of asset disposals since the last inventory

During the inventory, the bar-coded tags of all assets at each location will be scanned along with an indication of the property and building in which each asset was inventoried. If a tag cannot be scanned (damaged, dirty) the tag number will be manually recorded.

Any Capital Asset found without a bar-coded tag will be entered into Fixed Asset System as a new asset. If research determines that the asset was formerly acquired and is properly in the custody of the University, but has not been recorded in the Fixed Asset System, the asset will be entered into the system as an addition. If research determines that the asset was previously entered into the Fixed Asset System and the tag had been removed, a new bar-coded tag will be affixed to the asset and the Fixed Asset System subsequently changed to reflect the new tag number.

For new assets (assets acquired since the previous physical inventory) the following information will be added to the fixed asset system:

- Tag Number
- Serial Number When possible)
- Model
- Date received
- Class Code
- Manufacturer

14 DEFINITIONS

Annual Depreciation	The portion of an asset's accumulated depreciation allocated to the current fiscal year.
Capital Asset	A building, betterment, improvement, property, or equipment asset of the University having a unit original cost of $500 or more and an economic useful life greater than one year.
Capital Leases	Leases of assets that are deemed, based on meeting specific criteria, to be purchases financed over a specific period of time. These leases are treated as Capital Assets rather than charging their lease payments as operating expenses
.	
Class Code	Broad categories ("classifications") of property. Each class code represents a subset of the larger Account designations for property and equipment. Class codes are used to group the different types of property by like kind in order to assign estimated useful lives to each category.
Construction In Progress	A Fixed Asset category containing accumulated costs of Construction In Progress of an asset, normally a building. These costs are reclassified from Construction In Progress to other Fixed Asset categories, such as Buildings, Improvements, Machinery and Equipment, etc. upon completion of the asset and putting it into service.
Controllable Assets	Assets which do not meet the criteria for Capital Assets (unit original cost greater than $2,499 and a useful life of at least one year) but which are inventoried by individual Departments for security and control purposes. These assets can either be maintained in the fixed asset system as non-capitalized assets or in a separate spreadsheet. They are usually small, valuable, easily stolen items.

Cost of Reproduction New	The estimated amount required to reproduce a duplicate or a replica of the entire property at one time, in like kind and materials, labor, and manufactured equipment, contractors' overhead and profit, and fees, but without provision for overtime, bonuses for labor, or premiums for material or equipment. Cost of Reproduction New, as defined, is synonymous with the insurance industry term Replacement Cost.
Depreciation	A portion of the original cost of an asset charged against current operations as an expense. Depreciation represents a loss of the asset's original value as it ages and is used. Therefore, it reduces the accounting value of the asset. Depreciation is accumulated over the estimated economical life of the asset.
GAAFR	Governmental Accounting, Auditing, and Financial Reporting; A publication of the Government Finance Officers Association (GFOA).
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GASB Statement 34	Statement Number 34 of the Governmental Accounting Standards Board "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"
GASB Statement 35	Statement Number 35 of the Governmental Accounting Standards Board "Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities, an amendment of GASB Statement No. 34"
Market Value	The price at which a willing seller would sell something to a willing buyer, neither under any compulsion to buy or sell. For donated assets the value assigned as the acquisition cost is the fixed asset's Market Value as of the date of the donation.

Modified Approach	Alternate method, in lieu of depreciation, to report asset maintenance costs for selected infrastructure assets as defined in GASB Statement 34.
Net Book Value	The value of an asset after deducting the accumulated depreciation from the Capitalized Cost.
Original Cost	The actual or normal cost of new property in accordance with market prices as of the date the property was first constructed and originally installed.