

Office/Contact: Accounting Office

Source: South Dakota Bureau of Finance and Management Accounting Systems Procedures Manual; South Dakota Bureau of Finance and Management Fixed Assets System Procedures Manual; SDBOR Accounting Policies and Procedures Manual

Link: <https://bfm.sd.gov/>;

<http://mytraining.sdbor.edu/resources/Banner/Finance/AccountingPoliciesAugust2012.pdf>

SOUTH DAKOTA STATE UNIVERSITY
Policy and Procedure Manual

SUBJECT: Fixed Assets

NUMBER: 5:9

1. Purpose

This policy implements the applicable guidelines of the South Dakota Bureau of Finance and Management (BFM) Accounting Systems Procedures Manual, South Dakota Bureau of Finance and Management (BFM) Fixed Assets System Procedures Manual, and the SDBOR Accounting Policies and Procedures Manual to establish a uniform University policy regarding fixed assets.

2. Definitions

- a. Fixed Assets: For property management and capitalization purposes, a fixed asset is the term used to describe major tangible items costing \$5,000 or more and having a useful life of more than one (1) year.
- b. Buildings: Include, but are not limited to, (1) structures that are considered major structures. This would consider brick and mortar and other major structures. (2) Pole and storage buildings and other structures which are significant in size but not considered to be major structures, and minor structure buildings. (3) Minor structures such as a storage shed or some small structure that is insignificant and not as permanent in nature as either of the first two sub-categories.
- c. Land Improvements: Include, but are not limited to, such items as driveways, sidewalks, parking lots, flagpoles, retaining walls, fencing, and outdoor lighting. These items are exhaustible and require maintenance; therefore, they are considered a depreciable asset.
 - i. Expenditures for land improvements that do not require maintenance or replacement, expenditures to bring land into condition to commence erection of structures, expenditures for improvements not identified with structures, and expenditures for land improvements that do not deteriorate with use or passage of time are additions to the cost of land and are generally not exhaustible and not depreciable.
- d. Building Improvements: Include costs that add to the permanent value of buildings or prolong a building's useful life. Examples of building improvements include roofing projects, major energy conservation projects, or remodeling and replacing major building components.

- i. Costs that keep property in an efficient operating condition and do not add to the permanent value of the building or appreciably prolong its intended life are not considered building improvements. Examples of such improvements include, but are not limited to, general repairs and maintenance such as cleaning, painting, and carpet. These costs should be expensed and not capitalized.
- e. Banner Finance Module: the formal record keeping system utilized by the University to maintain sufficient information needed for financial reporting and support needed for audit purposes.

3. Policy

- a. University employees are responsible for following the applicable guidelines and procedures set forth in the BFM Accounting Systems Procedures Manual, BFM Fixed Assets System Procedures Manual, and the SDBOR Accounting Policies and Procedures Manual along with other applicable laws and policies.
- b. South Dakota state policy for recording fixed assets, as set forth in the BFM Accounting Systems Procedures Manual and SDBOR Accounting Policies & Procedures Manual, is that all assets must be recorded. This includes, but is not limited to, items such as furniture, fixtures, equipment, machinery, vehicles, aircraft, buildings, building improvements, land, land improvements, infrastructure, and computer equipment. This also includes, but is not limited to, the cost of major restoration of vehicles and equipment and major remodeling of buildings.
 - i. When considering the terms “major remodeling” or “major restoration” the following criteria should be used as a guide for qualification:
 - 1. Increases physical dimensions (such as building additions or improvements);
 - 2. Increases productivity;
 - 3. Lengthens future life; and
 - 4. Lowers future costs.
 - ii. The state’s capitalization threshold for recording land, land improvements, buildings, building improvements, and infrastructure is as follows:
 - 1. Land: All purchases are capitalized, regardless of cost.
 - 2. Land Improvements: \$50,000 or more.
 - 3. Buildings: \$100,000 or more.
 - 4. Building Improvements: \$100,000 or more.
 - iii. Software purchases are not fixed (tangible) assets, but are more correctly defined as intangible assets. These assets are amortized over the length of the asset if the asset meets the following criteria:
 - 1. Intangible assets equal or greater than \$100,000, and
 - 2. Has a useful life that exceeds one (1) year.
 - iv. Assets that are financed by a lease that meets the definition of a capital lease, and in which the asset meets the definition of a capital asset, must be entered in the

Banner Finance Module. For financial accounting and reporting purposes, the lease is a capital lease if:

1. The fair market value (FMV) of the property at the inception of the lease meets or exceeds the capitalization threshold,
 2. The lease is non-cancelable, and
 3. The lease meets one (1) or more of the following four (4) criteria:
 - a. The lease transfers ownership of the property to the lessee by the end of the lease term.
 - b. The lease contains a bargain purchase option.
 - c. The lease term is equal to or greater than 75% of the estimated useful life of the leased property (i.e. lease is six (6) years, estimated useful life is eight (8) years).
 - d. The present value (PV) of minimum lease payments equals or exceeds 90% of the FMV of the leased property (i.e. PV of future minimum lease payments is \$9,000, FMV of the property is \$10,000)
- c. There are several pieces of information that must be determined for each asset entered in the Banner Finance Module. Some of the information requested includes:
- i. Asset Description: The asset description is a character field in the Banner Finance Module that should be used to describe the asset in enough detail necessary to identify the item in the case of an audit or management inquiry.
 - ii. Cost: Capital assets should be recorded at historical cost. The historical cost of a capital asset is not only its purchase price or construction cost, but also ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition, such as freight and transportation, site preparation costs, and professional fees. In the absence of historical cost information, the asset's estimated historical cost may be used.
 1. A variety of methods may be used to estimate the historical cost of capital assets for which invoices and similar documentation of historical cost (direct costing) are no longer available:
 - a. Historical sources, such as old vendor catalogs, may be used to establish the average cost of obtaining the same or a similar asset at the time of acquisition (standard costing).
 - b. The current cost of the same or a similar asset may be deflated using an appropriate price index (normal costing or back trending).
 - c. Prior appropriation and budget documentation may be researched to determine the amount appropriated for the asset's purchase or construction. This approach would be more appropriate for large dollar items such as land, land improvements, buildings, and building improvements.
 - d. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.

- iii. **Estimated Useful Life:** The estimated useful life means the estimated number of years that an asset will be able to be used for the purpose for which it was purchased or constructed. An asset must have an estimated useful life greater than one (1) year to be recorded in the Banner Finance Module. Assets that are consumed, used up, habitually lost, or worn out in one (1) year or less should not be recorded on the Banner Finance Module.
 - 1. The estimated useful life table by asset class code on the BFM Intranet site must be used by the University when determining an asset's useful life.
 - 2. Land and some land improvements always have zero ("0") for an estimated useful life, as land is a non-depreciable asset.
- iv. **Salvage Value:** The salvage value of an asset is the value it is expected to have when it is no longer useful for its intended purpose. In other words, the salvage value is the amount for which the asset could be sold at the end of its estimated useful life.
 - 1. In adherence with the SDBOR Accounting Policies and Procedures Manual, for practicality and consistency purposes a zero ("0") salvage value for all capital assets is to be used.
- v. **Depreciation:** All capital assets, except land, are to be depreciated using the straight-line method for depreciation. Under the straight-line method for depreciation, the historical cost is expensed evenly over the estimated useful life of the asset. In general, the amount of depreciation is determined by dividing an asset's historical cost value by its estimated life. The total amount depreciated can never exceed the asset's historical cost. At the end of the asset's estimated life, the net book value should be zero ("0").
 - 1. Depreciation will be calculated using a full-month convention. Under a full-month convention, property placed in service at any time during a given month is treated as if it had been placed in service on the first day of the month. This allows depreciation to be taken for the entire month in which the asset is placed in service. If the property is disposed of before the end of the estimated useful life, depreciation is allowed for the entire month of disposition.
- d. Only items that are valued at \$5,000 or greater will be used for financial reporting purposes when preparing Generally Accepted Accounting Principles (GAAP) financial statements, or the Statewide Comprehensive Annual Financial Report.

4. Responsible Administrator

The Vice President for Finance and Business, or designee, is responsible for the annual and ad hoc review of this policy. The University President is responsible for approval of this policy.

SOURCE: Approved by President on 10/09/2014.