VIII. Accounting for Fixed Assets and Capital Projects

A. Overview:

Property Accounting, a unit within the Controller's Office, is responsible for ensuring that the University's property standards are adhered to and for maintaining RIT's asset recordkeeping system which includes capital equipment, land, buildings, and building and site improvements.

Objectives:

In this chapter you will learn about:

- what capital equipment is
- purchasing and recording capital equipment purchased on a purchase order, Digital Den, and gifts-in-kind
- special requirements regarding equipment purchased with federal funds
- how capital equipment purchases are funded
- recording changes and retirements of equipment inventory
- what information is retained in the Oracle Asset recordkeeping system
- physical inventory procedures
- procedures for handling surplus equipment
- Oracle Assets' inquiry and reporting features
- what capital construction/improvement projects are
- how expenses on capital projects are tracked and funded

B. Property Standards

1. The federal Office of Management and Budget (OMB) provides property standards for institutions of higher education that receive federal funding. 2 CFR 200.313 states that:
   a. The Property Accounting system must ensure adequate safeguards to prevent loss, damage or theft of equipment.
   b. All capital equipment must be insured.
   c. Physical inventories must be conducted periodically, minimally at least every two years.

2. RIT Property Accounting develops and administers specific policies and procedures regarding acquisition and disposal of capital equipment.

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C. Definition of Capital Equipment

1. Capital equipment (including furniture and furnishings) is defined as tangible personal property (moveable) with a cost per unit of at least $5000, including acquisition costs of delivery and installation, and a useful life of more than one year.

2. Software (intangible personal property) having a value of at least $100,000 is also considered to be capital equipment. If the software upgrade/addition occurs within the same fiscal year that the asset was placed in service, the cost, regardless of the amount, should be added to the value of the existing asset. If the upgrade/addition occurs in a subsequent fiscal year, and the amount is $100,000 or more, the cost will be capitalized as a separate asset and depreciated over the useful life established for the new asset. . If the cost is less than $100,000, the amount will be expensed in the period it was incurred.

3. Fabricated equipment is defined as an item of capital equipment fabricated from component parts. While the components may have a cost per unit of less than $5,000, when complete the item meets the RIT standard definition for capital equipment above.

4. All capital equipment is included in Oracle Assets, RIT's recordkeeping (inventory) system.

D. Depreciation

1. When capital equipment ≥ $5,000 is purchased, it is recorded as an asset on RIT's balance sheet and then expensed (depreciated) for financial statement purposes over its estimated useful life.

2. Depreciation is the process of allocating the cost of a fixed asset in equal amounts to each period (month) expected to benefit from its use. For example, a computer is expected to have a useful life of 5 years. Therefore, a computer that was purchased for $2,000 in May of 2013 would be depreciated (expensed) over 60 periods beginning in June, 2013. The depreciation expense would be $33.33 per month.
   a. Total depreciation expense for equipment in fiscal year 2013 was approximately $11.5 million. Depreciation for building and improvements was $23.6 million.

3. Depreciation expense is not charged directly to the department that purchased the equipment; it is charged to a Central Institute department account.

4. Equipment < $5000 is reflected as an expense on the RIT financial statements during the month it is paid for.

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Refer questions regarding capital equipment to Property Accounting at ext. 5-4933.

E. Procurement

1. Capital equipment may be acquired through purchases, loans or donations from external organizations and individuals. Donations of equipment are called gifts-in-kind.
   a. Authorized individuals may make capital equipment purchases through the RIT Procurement Services Office by creating an on-line requisition in the Oracle Purchasing application.
      - Requisitions must be approved in Oracle by an authorized departmental approver or Principal Investigator (for equipment purchased with grant/contract funds).

Refer to Lesson 1: Create a Requisition in the Requisition Section of the Oracle Training Manual: http://finweb.rit.edu/purchasing/oracle/training.html.

   b. Purchase all capital equipment from your department capital equipment account (the project segment of the account number = 84200). Use object code 16200 (equipment ≥ $5,000) in the 24-digit general ledger account number.
   c. Here's an example of a capital equipment project account in the College of Engineering (note that the FEC is 00 in the account combination since this item will be recorded as an asset):

$$01 . 63100 . 16200 . 00 . 84200 . 00000$$

   d. Request the *RIT-Capital Equipment Statement* each month to reconcile your department's capital equipment purchases. The Capital Equipment Statement reflects fiscal year beginning balances, current open encumbrances, current month expenditures, fiscal year to date expenditures, and the project to date available balance or deficit.

The capital equipment project statement is available in the Oracle General Ledger application. Refer to Chapter XI for a list of commonly used FSG reports.

   e. Charge equipment valued at < $5,000 to object code 84000 (equipment < $5000). You may charge equipment < $5,000 to your department operating account or to your department capital equipment account.

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f. Here's an example of the account number to use when purchasing equipment < $5,000 from your department operating account (note that there is FEC in the account combination, since this item is an expense):

<div align="center">

01 . 63100 . 84000 . 10 . 00000 . 00000

</div>

Here's an example of the account number to use when purchasing equipment <$5,000 purchased from your department capital equipment account:

<div align="center">

01 . 63100 . 84000 . 10 . 84200 . 00000

</div>

g. Equipment purchased by NTID departments is charged to department 41000, using NTID's current fiscal year's project account (020XX).
h. If you are purchasing capital equipment on a grant or contract project, it must be separately budgeted and approved in advance by the sponsor.
   - Charge the equipment purchase directly to capital equipment line on the specific grant or contract.

Here's an example of the account number to use when purchasing capital equipment on a federal grant:

<div align="center">

01 . 63100 . 16200 . 00 . 30000 . 00000

</div>

   - Note: capital equipment purchases are exempt from Facilities and Administrative Cost rate calculations.
i. You may also purchase capital equipment from designated funds, special projects or gift accounts, as long as the purchase meets any restrictions placed on the account, and there are sufficient funds available to cover the purchase.
j. If you have questions about purchasing capital equipment on a grant or contract or a restricted account, contact your SPA representative for specific information before proceeding.

> Refer to the Controller's Office web page:
> https://www.rit.edu/fa/controller/sponsored/assignments.html, to determine who the SPA representative is for your department.

k. Because the required information to record capital equipment in the fixed assets application is not available from PNC Bank Active Pay system, the RIT procurement card cannot be used to purchase capital equipment.

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- If there is a situation where use of a procurement card could result in large savings to RIT, obtain approval from the Procurement Services Office and Property Accounting prior to making the purchase.
- Upon approval by Procurement Services Office and Property Accounting, the University Card Administrator will temporarily change the limit on your procurement card to allow the transaction to be processed.

> Call the University Card Administrator at ext. 5-4491 to obtain more details about purchasing capital equipment on your procurement card.

2. A Charge Authorization Form may be used to purchase computers and general equipment from the Digital Den.
   a. Complete an Authorization Form. Purchases made by a department from the Digital Den will be charged to a general ledger chargeback account. The chargeback object code for Capital Equipment > $5,000 for Digital Den is 90101.
   b. On the Authorization Form indicate the 24-digit general ledger account number that the equipment should be charged to, (using object code 90101), obtain the appropriate departmental approvals, and take it to the Digital Den.
   c. All Apple Computers, iPad's, Apple TV's and Apple Watch's must be purchased through the RIT Digital Den, to enable Apple Device Enrollment.
   d. The RIT Digital Den will complete the sale and Apple Device Enrollment, and will process a journal entry to charge your department for the purchase.

3. Gifts-in-kind include tangible personal property and/or software donated to RIT by external organizations and individuals. Those gifts with a value of at least $5,000 ($100,000 for software) are included in the fixed asset system.
   a. Notify RIT's Development Office about all gifts received by your department so that they can update the Advance system and send the donor an acknowledgement.

> To obtain more information about Gift-in-Kind, refer to the Controller's Office web page: https://www.rit.edu/fa/controller/accounting/gifts.html.

   b. For financial statement purposes, Accounting staff prepare a journal entry to credit the department's capital equipment account for the value of the gift (e.g., gift-in-kind income) and debit the gift-in-kind capital equipment object code. This entry does not impact the department's bottom line since the debit + credit = 0.

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Here's an example of the accounts used to record a capital equipment gift-in-kind of $2,000 for the College of Engineering:

Gift-in-Kind Capital Equipment Expenditure
DR 01 . 63100 . 87105 . 82 . 84200 . 00000 $2,000

Gift-in-Kind Capital Equipment Income
CR 01. 63100 . 54300 . 82 . 84200 . 00000 $2,000

 c. Development provides Property Accounting with an RIT Development Record of Gift Form that includes the value, donor, donee, date and any written correspondence associated with the gift.
 d. Property Accounting manually updates the fixed asset system with the gift-in-kind information. Gift-in-kind equipment is recorded as an asset and depreciated over its estimated useful life. The equipment will appear in the department's inventory records.

4. Government Furnished Equipment (GFE) – GFE refers to equipment that is loaned to RIT for a specific purpose and duration of time, typically detailed in an agreement between the "bailor" (the agency of the federal government that owns the equipment) and the "bailee" (RIT). Since there may be special reporting and insurance requirements, notify Property Accounting if you are in receipt of government furnished equipment.

5. Fabricated Equipment – Occasionally, RIT departments may fabricate a piece of capital equipment from component parts.
 a. Requests to fabricate capital equipment must be approved in advance by Property Accounting. Complete a Fabrication request Form located on the Controller's Office web page and send to Property Accounting.
 b. Charge all component parts to object code 16250-16259. Internal labor is not capitalizable.
 c. When complete, the fabricated equipment must meet the RIT standard for the definition of capital equipment. The total combined costs of the component cost must be $\geq$ $5,000.
 d. Property Accounting manually updates the fixed asset system with the fabricated equipment information. It is recorded as an asset and depreciated over its estimated useful life. The equipment will appear in the department's inventory records.

> To obtain more information, refer to the Equipment Fabrication Policy on the Controller's Office web page (Property Accounting section) at https://www.rit.edu/fa/controller/equipmentfabrication.pdf

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F. Funding Capital Equipment Purchases < $20,000

1. Colleges/Divisions may receive a capital budget allocation through the annual budget process. The amount of the allocation appears as a line item budget in the department's operating account.

2. Each month during the fiscal year, the Budget Office processes a standard monthly journal entry to debit the department's operating account (object code 63184) for 1/12th of the annual budget allocation and credit the department's capital equipment account.

3. Departments may allocate funds among their capital equipment projects throughout the year by requesting the Budget Office to process a funds transfer.

4. Departments may fund miscellaneous capital equipment purchases charged to their capital equipment project 84200 from their operating account or their designated fund account by requesting the Budget Office to process a funds transfer.
   a. The journal entry will charge (debit) your operating or discretionary account (the funding source) and credit your capital equipment account using the appropriate transfer object codes.

   Example: the College of Engineering purchased a computer for $2,100 from their capital equipment account. Here are the account numbers used in the journal entry to transfer funds from their operating account to their capital equipment account to fund the purchase:

   Operating Account line:
   DR 01 . 63100 . 63184 . 00 . 00000 . 00000 $2,100

   Capital Project line:
   CR 01 . 63100 . 63101 . 00 . 84200 . 00000 $2,100

5. The Budget Office monitors capital equipment projects throughout the year and will contact departments to resolve deficits should they occur.

> To obtain more information about transfers, refer to the Accounting Practices, Procedures and Protocol Manual on the Controller's Office web page: Chapter VI When to Use Transfer Journal Entries
> https://www.rit.edu/fa/controller/accounting/manual.html

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G. Funding Capital Equipment Purchases > $ 20,000

1. Departments may receive funding allocations from the Central Institute through the annual budget process for capital equipment purchases greater than $20,000. Note: the Budget Committee of the Board of Trustees must approve purchases of $20,000 or more, regardless of the funding source.

2. As purchases are made throughout the year, departments submit payment information to the Budget Office for reimbursement (e.g., Oracle Report – RIT Account Analysis - Subledger). The Budget Office will process a transfer from the Central Institute to the department's capital equipment project to fund the purchases.

H. Inventory Record Keeping

1. Property Accounting is responsible for maintaining RIT's fixed asset inventory records including additions of new fixed assets, changes to existing fixed asset records and removing assets from the records that are retired or disposed of.

2. Each month, Property Accounting obtains information from the Oracle Accounts Payable system (i.e., purchased through the Oracle Purchasing application) regarding capital equipment purchases during the prior period. Property Accounting edits all invoice lines and adds other information required by Oracle Assets (see # 3 below).

3. When capital equipment is added to Oracle Assets, specific information is required and other information is optional.
   a. Required Information:
      - Location (building/room)
      - Category and Acquisition code
      - Units – RIT keeps its inventory in units of one
      - Acquisition Cost – amount paid for the equipment including delivery and installation charges
      - Equipment Description – note: it's helpful to enter a meaningful description on the purchase requisition since this information is transferred to Oracle Assets.
      - Depreciation expense account – depreciation expense is charged to the General Institute. The department of the owner is included for information purposes only.
      - Date-in-Service (the vendor invoice date; not the general ledger pay date) – this date is important for calculating depreciation expense

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> Refer to the Controller's Office Property Accounting section for a list of Fixed Asset Useful Lives:
> https://www.rit.edu/fa/controller/property.

    b. Optional Information (although highly recommended):
- Clearing expense account – offsets the charge (debit) to inventory on the Oracle created inventory addition journal entry
- Invoice #, Supplier #, PO #
- Asset Key (department/project/program) – used in Oracle Asset Standard reports when sorting by department and for inquiries
- Tag #, Serial #
- Manufacturer, Model

4. Once Property Accounting has obtained all necessary information regarding the new assets, the information is posted to Oracle Assets where it becomes part of RIT's capital equipment inventory. During this process each asset is assigned an asset number.

5. Property Accounting forwards asset tags to the department to affix to the new equipment. In addition, Property Accounting provides information regarding new assets and requests missing information such as building and room number. Note: certain departments are responsible for tagging their own capital equipment. They send tag number information to Property Accounting.

6. Property Accounting manually enters capital equipment purchased from loans, AACS @ B&N, RIT Photo Store, fabricated equipment and received as a gift-in-kind into the Oracle Fixed Asset application.

7. Advise Property Accounting when you change the location of an asset or transfer an asset to another department. Property Accounting will record these changes in Oracle Assets as soon as the information is received from the department.

8. It is important to notify Property Accounting when assets are retired (removed) from the inventory so that the fixed assets records may be adjusted. Assets may be retired for the following reasons:
   a. Surplus Equipment – See section J below for information about surplus equipment.
   b. Donated – Department heads may decide to donate equipment that is no longer needed to students, employees or not-for-profit organizations. Prior to removing an asset from RIT, notify Property Accounting.

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c. Sold – Notify Property Accounting prior to removing the asset from RIT. If equipment is sold to students, employees, or parties external to RIT, the department must deposit proceeds from the sale at Student Financial Services. Complete a deposit ID Form and indicate the tag # or asset # and the following general ledger account number: 01.01000.18100.00.00000.00000. Through an accounting process, the department will receive credit for the amount of the sale.

d. Stolen – Notify Public Safety and Property Accounting if equipment is stolen from your department.

e. Loaned out – Occasionally, capital equipment may be loaned to an employee for use off-campus. Prior to removing the asset from RIT, notify Property Accounting.

f. Loaned to RIT - Occasionally, capital equipment may be loaned to RIT. Prior to removing the asset from RIT, notify Property Accounting

g. Equipment Acquired with Federal Funds – Special regulations may apply to disposal of equipment acquired with Federal funds (e.g. grants and contracts). Contact your Sponsored Programs Accounting representative to obtain specific sponsor regulations that may apply to your grant or contract. Records for real property and equipment acquired with Federal funds are retained for three years after final disposition.

> A Property Removal Form is available on the Controller's Office web page at: https://www.rit.edu/fa/controller/forms/propertyremoval.pdf

> The RIT Property Accounting Additions / Deletions / Changes Form on the Controller's Office web page:
> https://www.rit.edu/fa/controller/forms/propertychange.pdf
> is used to communicate inventory information.

I. Physical Inventory

1. To ensure the accuracy of RIT's financial statements, the University is required to perform a complete physical inventory annually.

2. During any one calendar month chosen at their discretion, departments must complete an annual physical inventory of all capital equipment.

3. Property Accounting provides the RIT Asset Inventory Report listing information regarding each asset assigned to the department. Each department inventory representative downloads the report directly from Oracle Assets (OA). Departments use this report to compare the equipment that physically exists to the information in the Oracle Fixed Asset system.

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4. The department inventory representative updates the report and uploads the changes directly to OA. The representative signs a certification form along with the department head or department financial approver. Upon receipt of the certification, Property Accounting compares the changes I OA and adjusts the records in the fixed asset system to agree with the physical inventory.

5. To ensure that the University's assets are correctly stated in their financial statements, journal entries are prepared to adjust the assets recorded on the balance sheet. If an asset is disposed of before it was fully depreciated, a gain / loss adjustment is processed.

6. Due to the impact on the financial statements, Property Accounting works with departments to research large discrepancies (i.e., remaining NBV is greater than $5,000 and/or the asset retired was less than 1 year) and review policies, procedures and protocol for propriety and adherence.

> A sample Departmental Asset Inventory Report RIT is available in Chapter XVI, Section G.

J. Surplus Equipment

1. Surplus equipment is equipment that is no longer needed by the department who made the initial purchase.
   a. Disposition of RIT's surplus property is the responsibility of the Procurement Services Office through the administration of the Surplus Property procedure.
   b. See section H above for information regarding the disposal of equipment acquired with Federal funds.

> The RIT Surplus Property Policy is available on the Procurement Services Office's web page at http://www.rit.edu/fa/procurement/

K.   Oracle Assets Inquiry and Reporting

1. Departmental inventory representatives may perform inquiries and request capital equipment reports from the Oracle Financial Applications Access Request Form.
   a. Submit an Oracle Financial Applications Access Request Form to obtain access to the Oracle Fixed Asset system.

> An Oracle Financial Applications Access Request Form is available on the Controller's Office web page at:
> https://www.rit.edu/fa/controller/forms/OracleFinancialApplicationsAccessRequest.pdf

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L. New Capital Construction/Improvement Projects

1. RIT defines a capital project as planning, design, construction, modification and restoration/renovation of campus buildings and surroundings with a total cost of $5,000 or more.
   a. Capital projects are recorded as assets on RIT's balance sheet and expensed (depreciated) for financial statement purposes over the estimated useful life of the asset.
   b. Many projects such as painting and maintenance cost more than $5,000, but they are not considered to be a capital improvement (i.e., a capital improvement extends the useful life of the asset). Maintenance projects are expensed at the time they occur. Non-capital improvements are typically charged to the department's capital equipment project account (e.g., 84200) but may also be charged to the operating account. Internal labor is not capitalizable, and therefore, expensed.

2. Prior to beginning a capital project, FMS obtains the appropriate authorization from the department.
   a. All planned construction or building improvement projects greater than $20,000 must be approved by the Budget Committee through the annual budget process, regardless of the funding source.
   b. Construction or building improvement projects of $500,000 or more must be approved by the Finance Committee of the Board of Trustees.

3. The Facilities Management Service (FMS) department manages all campus construction projects and building and site improvement projects. Typically an FMS engineer is assigned to manage a project.

4. To accurately track costs and funding, each capital improvement / construction project is assigned a unique Oracle project number. When a project is approved and ready to begin, FMS submits a project set-up request to Property Accounting which includes all pertinent information including: project description and location, funding account, and estimated total cost.

5. The Property Accounting sets up the plant fund number (81XXX – 82999, 808XX and 88XXX for projects funded by external gifts) in the general ledger along with the appropriate account combinations. This project is used to track all revenues, transfers and expenses associated with the project. (Note: FMS also tracks project financial information in their "project tracker" system.)

   Here's an example of a capital improvement project in the College of Engineering. Note: all capital construction/improvement projects are assigned to FMS department 18000.

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Object code 80450 – Building & Site Capital Expenditure

01 . 18000 . 80450 . 88 . 81162 . 00000

6. Property Accounting then prepares a journal entry to transfer funds for the approved amount from the funding source (e.g., department operating account, department capital equipment account, Central Institute, etc.) to the plant construction project account.

Capital Equipment Project:

DR 01 . 63100 . 63183 . 00 . 84200 . 00000

Plant Project:

CR 01 . 18000 . 63184 . 00 . 81162 . 00000

7. Typically projects are approved with 10% contingency spending. One half of the contingency amount may be spent without prior approval. The remaining amount must be approved by the Vice President of F&A prior to being spent. Property Accounting prepares a transfer entry for the 10% contingency at the time the initial funding transfer is processed:

Capital Equipment Project:

DR 01 . 63100 . 63183 . 00 . 84200 . 00000

Plant Project Contingency (note: the department number is the funding department):

CR 01 . 63100 . 63188 . 00 . 81162 . 00000

8. The capitalization threshold for furniture and furnishings is $5,000. However, when the unit cost of individual items that do not meet the $5,000 threshold are purchased as part of a construction or major improvement project, their total cost will be capitalized in aggregate when it is $75,000 or more per project. A major capital project is one in which the total cost exceeds $675,000 (excluding the cost of furniture and furnishings) and the purpose of the project increases the useful life of the asset or prepares it for a new purpose. When a department purchases furniture or equipment as part of a renovation or construction project, it is usually charged to the same project number as the FMS project, but in combination with their department number (see below):

Furniture > $5,000:

01 . 63100 . 16200 . 00 . 81162 . 00000

Furniture < $5,000:

01 . 63100 . 84000 . 10 . 81162 . 00000

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M. Tracking Project Expenses

1. FMS is responsible for approving all charges to plant projects. Transactions are recorded in the plant project account on the ledger as they occur either through accounts payable transactions or journal entries.
   a. The majority of charges on plant projects are to the following object codes: 80450 – Building & Site Capital Expenditure for payments to outside contractors; 90171 – FMS Capitalized Chargeback; 90375 – Telecommunications Work order Chargeback.
   b. When capital equipment is purchased on a plant project it is charged to object code 16200.
   c. Occasionally, non-capitalized expenditures such as travel or supplies are charged to a capital project. When this occurs, the FEC of the department funding and benefiting from the capital project is used in the accounting combination.

   Here's an example of a hospitality travel expense charged to the non-capital expenditure in the College of Engineering's capital project 81162 which is a renovation of a classroom (e.g., FEC 10 – Instruction).

   # 01 . 18000 . 78550 . 10 . 81162 . 00000

2. Project summary reports are available from Oracle by project number that include current period expenses, revenues and transfers as well as YTD and PJTD information.
   a. The most commonly used report for tracking capital construction improvement projects is the *RIT Plant Fund Capital Project Statement.*
   .

N. Project Close-Out

1. Each month, FMS provides Property Accounting with information regarding all projects that were completed (i.e., entered into service) during the month. This in-service date begins the close-out process.

2. FMS will provide Procurement Services with a list of purchase orders to be "final closed". This will liquidate any remaining encumbrances for which no additional payments are expected.

3. About 60 days after the date in service, FMS will initiate a list of outstanding additional expenditures consistent with the original scope of the project. The final list will also note if the future expense is currently encumbered.

4. The list of outstanding additional expenditures consistent with the original scope of the project will be sent to Property Accounting no later than 90 days after the date in service.

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5. At the end of the 90 day period, Property Accounting will transfer any surplus funds remaining on the project account back to the original source, not including the list of outstanding expenditures consistent with the original scope (Step #3). The remaining contingency and retainage will be liquidated as appropriate. The project is end-dated and the project account combinations are disabled.

6. At the end of the 180 day period, if there are outstanding invoices to be paid from the list of outstanding expenditures, the project will be enabled to allow payments to be processed. Any additional expenses discovered, will need to have a new project approved if the total cost is at least $5,000.

7. For incremental expenditures not included on the original outstanding expenditure list, FMS will request funding from the Budget Office if it is within the 90 – 180 days after the project was substantially complete.

8. When all payments are complete FMS must ensure all encumbrances are at -0-. A project must have a net balance of zero and no outstanding encumbrances to be closed. Property Accounting will return all remaining funding.

9. If there is an energy rebate which may not have been determined by the project end date, FMS will ask Property Accounting to temporarily reopen the project when the funds are received. Property Accounting will reverse prior funding up to the amount of the rebate.

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