

## **Plant, Property and Equipment Procedure**

### **Asset Retirement**

**Effective: April 2008**

**Revised: September, 2009**

#### **Overview**

This procedure describes the procedures Schools and Centers must follow to properly retire assets that have been sold, transferred, discarded or otherwise disposed of.

#### **Responsibilities:**

##### Schools/Centers

*Senior Asset Administrator (AA)* – The AA is responsible for recording the retirement of moveable equipment and collectibles, including donated equipment and collectibles, belonging to his/her center. Such assets include any items assigned to a Responsible ORG that is designated as belonging to the Center. Prior to recording the retirement of the asset in BEN Assets, the AA is responsible for ensuring all authorizations have been received, that grant requirements identified by ORS have been met and that the asset has been physically disposed.

*Asset Administrator (AA)* – The Asset Administrator is responsible for completing the “Authorization for Retirement of Equipment” form and obtaining the appropriate authorizations prior to disposition of the asset. The AA should also notify the Tagging Contact or Custodian of any grant requirements.

*Tagging Contact/Custodian* – Tagging Contact (TC) and Custodian are responsible for identifying moveable equipment and collectibles to be retired and for initiating the retirement process by notifying the AA of the impending retirement of the asset. This includes retirement due to theft or casualty loss. The TC or Custodian that initiates the retirement is also responsible for ensuring that grant requirements are met upon the disposal of the asset.

In instances where the retirement of the asset is due to theft, the TC or Custodian who identifies the loss must promptly report the theft both to the Office of Public Safety and to the Office of Risk Management. If the retirement is due to casualty loss, the TC or Custodian who identifies the loss must notify the Office of Risk Management of the loss.

##### Property Management Group (PMG)

The Property Management Group is responsible for recording the retirement of land, buildings, fixed equipment, and library books belonging to the University.

##### Facilities and Real Estate Services (FRES)

Facilities is responsible for obtaining proper authorization for the retirement of any land or buildings owned by the University and for notifying PMG of the retirement of such asset upon disposition.

**Plant, Property and Equipment Procedure**  
**Asset Retirement**  
**Effective: April 2008**  
**Revised: September, 2009**

Office of Research Services (ORS)

Research Services is responsible for reviewing the grant requirements for any moveable equipment purchased with grant funds and notifying the retiring school/center of these requirements.

**Business Procedure**

1. Initiation of Retirement Process

The Tagging Contact or Custodian during the normal course of their business may identify moveable equipment that needs to be retired due to the asset's replacement, loss due to theft or casualty, damage, impending sale, or other reason. For any items of moveable equipment with an acquisition cost greater than \$5,000, the TC/Custodian should then notify the AA of the impending retirement.

2. Preparation of "Authorization for Retirement of Equipment" form

The AA then completes the "Authorization for Retirement of Equipment" form located on the PMG website:

<http://www.finance.upenn.edu/comptroller/forms/index.shtml#PropMan>

The following information is required:

- a. Asset Administrator Name – name of the AA completing the form
- b. Intramural Address – University address of the AA
- c. Mail Code – Four-digit mail code of the AA
- d. E-mail Address – e-mail address of the AA
- e. University Extension – seven-digit telephone number of the AA
- f. Item# or Tag# - The asset identification number assigned by BEN Assets or the University tag number affixed to the item (if the asset is taggable) and entered into BEN Assets.
- g. Description – Description of the asset to be retired. This may be the description in BEN Assets.

## **Plant, Property and Equipment Procedure**

### **Asset Retirement**

**Effective: April 2008**

**Revised: September, 2009**

- h. Serial # - The serial number of the asset to be retired. The AA should enter “n/a” if the item does not have a serial number. This information may be available in BEN Assets or on the asset itself.
- i. Account # Charged – The seven-segment general ledger account to which the asset’s acquisition cost was charged.
- j. Acquisition Date – The date asset was acquired. This information is available in BEN Assets.
- k. Date of Retirement – The date on which the asset was physically disposed. This date is used to calculate the gain or loss on retirement of the asset by BEN Assets. For assets retired due to loss or theft, this is the actual date of the loss or theft. If the actual date of the loss or theft is unknown, then this should be the date the loss or theft was identified.

This information should be provided by the TC/Custodian that performs the physical retirement of the asset. For retirements due to loss or theft this date should be given to the AA when the retirement process is initiated, prior to approval of the form. For retirements other than those due to loss or theft, this date is the date of the actual physical disposal of the asset, which occurs after the form has been approved.

- l. Sales Price – This is the sales price of the asset when sold, if applicable. This should be completed by the TC/Custodian upon the sale of the asset, which occurs after the form has been approved.
- m. Sales Tax – This is the sales tax collected by the Department upon the sale of the asset. Sales tax should be collected on all assets sold, unless the buyer is exempt from sales tax. Proof of tax-exempt status should be obtained and attached to the “Authorization for Retirement of Equipment” form. This should be completed by the TC/Custodian upon the sale of the asset, which occurs after the form has been approved.
- n. Acquisition Cost – The original cost of the asset when acquired. This information can be obtained by the AA from BEN Assets.
- o. Accumulated Depreciation – This is the accumulated depreciation at the time of retirement. This information can be obtained by the AA from BEN Assets and is entered after the physical disposal of the asset, as this may change due to the time lag between authorization of retirement and actual physical disposal.
- p. Book Value – this is the difference between the Acquisition Cost and Accumulated Depreciation. This amount is calculated and added by the AA.

## **Plant, Property and Equipment Procedure**

### **Asset Retirement**

**Effective: April 2008**

**Revised: September, 2009**

- q. Method of Retirement – This is the reason the asset is being retired. The reason should be one of the reasons defined in BEN Assets, which include:
- Casualty Loss – Used when the loss is due to fire, collision or some other casualty loss. Risk Management should be notified of any casualty loss.
  - Extraordinary – Oracle preset. Not used.
  - Lost – Used when an asset is lost and cannot be located.
  - Other – Used for any retirement not covered above. If this is used frequently, PMG should determine why and whether a new Retirement Type should be set up.
  - Sale – Used for sales of assets.
  - Scrap – Used when an asset is scrapped or trashed.
  - Theft – Used for assets which are stolen. Public Safety and Risk Management should be notified of any stolen assets.
  - Trade-in – Used for any asset that at the end of its life is traded in for a new asset.
  - Transfer Out – Used for any asset that is transferred out to another institution along with the grant funding that purchased the asset.

After completion of these fields, the form should be signed by the Business Administrator, Chair or Director of the Department to which the asset belongs.

### 3. Approval of Retirement

Once the “Authorization for Retirement of Equipment” form has been completed and signed by the Department’s Business Administrator, Chair or Director, as appropriate, the form must also be approved by the School/Center Senior Business Administrator.

If the acquisition cost of the asset exceeds \$50,000, the form must also be approved by the Associate Treasurer.

If the acquisition cost of the asset exceeds \$250,000, the retirement must also be approved by the Vice-President of Finance.

### 4. Additional Requirements for Assets Purchased with Grant Funds

If the asset was acquired with grant funds, after the approvals have been received, the form should be forwarded to the ORS to review the grant requirements regarding retirement of assets. ORS should notate on the form any sponsor requirements or should notate “n/a” if there are none. ORS should then sign the form and return to the originating Department.

## **Plant, Property and Equipment Procedure**

### **Asset Retirement**

**Effective: April 2008**

**Revised: September, 2009**

#### 5. Physical Disposal of Asset

Once all approvals have been received and ORS has identified sponsor requirements, if applicable, the form is returned to the TC/Custodian who then physically disposes of the asset, except for assets retired due to theft or loss, which have already been physically disposed. See also Financial Policy No. 1106.31 Plant Assets – Disposal of Computing Equipment for steps to be completed prior to disposal of computing equipment.

After the physical retirement of the asset, the AA must complete the Date of Retirement, Sales Price, Sales Tax, Accumulated Depreciation and Book Value fields of the “Authorization for Retirement of Equipment” form.

#### 6. Sale of Asset

If the asset is to be sold, the Asset Administrator should query the asset in BEN Assets to determine the book value of the asset.

If selling the equipment - establish the fair market value:

- a. First, find current sale listings for the comparable equipment on an auction site, such as eBay.com, or by using other sources used for equipment valuation, such as Kelly Bluebook for vehicle values. Refer to Financial Policy No. 1106.31 Plant Assets - Disposal of Computing Equipment, for more detailed information on sale of computers.
- b. Second, calculate the average cost based on the equipment in the last hours/stage of the auction to determine the sale price of the equipment. Document this information.
- c. Third, the sale proceeds for any University of Pennsylvania property belong to the University.
  - i. Checks should be payable to the “Trustees of the University of Pennsylvania”.
  - ii. State sales tax must be collected and remitted on all sales, except when the buyer is tax-exempt. Proof of tax-exempt status must be provided by the Buyer at the time of sale and maintained by the School/Center. The tax may be included in the sales price. See the following example for calculation of tax amount:  
Sales price = \$100.00.  
Tax Rate = 8% (PA=6% + Phila= 2%) Effective October 8, 2009  
[for sales prior to that date, sales tax is 7% (PA=6% + Phila.=1%)]  
Sales Revenue = \$92.59 (100/1.08)  
Tax Amount = \$7.41
  - iii. Deposits for sales revenues should be recorded to object code 5602 Gain/Loss on Sale of Assets.

## **Plant, Property and Equipment Procedure**

### **Asset Retirement**

**Effective: April 2008**

**Revised: September, 2009**

- iv. Deposits for sales tax should be recorded to object code 2111 A/P Sales Tax. The Sales & Use Tax worksheet should be completed and forwarded to Corporate Tax Office (see Sales & Use Tax Guidelines).

#### 7. Loss or Theft of Asset

For any assets that have been stolen or suffered a casualty loss, the TC/Custodian must notify the Office of Risk Management of the loss. Additionally, for any assets that have been stolen, the TC/Custodian must report the theft to the Office of Public Safety.

#### 8. Recording Retirement in BEN Assets

Once the asset has been physically disposed either by sale or other removal from the premises, the TC/Custodian should notify the AA of the disposal. Once notified of the disposal, the AA must then record the retirement within BEN Assets. After the asset has been retired in the property system, BEN Assets will then at the end of the month, when monthly processing occurs create a journal that will post to BEN Financials to record the retirement in the General Ledger.

The AA must maintain the “Authorization for Retirement of Equipment” forms on file on the premises or in archives in accordance with the University’s record retention policy for financial documents. It is recommended that the AA maintain the forms on the premises for six months after the end of the fiscal year to allow for a more timely response to audit inquiries.

**Note:** Assets cannot be retired in BEN Assets in the same month they are created in BEN Assets.

#### 9. Month-End and Year-End Considerations

In order to ensure that retirements are recorded in the proper period, AAs, TCs and Custodians should ensure that completed “Authorization for Retirement of Equipment” forms are forwarded to the AA on a timely basis. This is especially true at year end when delays in reporting current year retirements could result in the recording of retirements crossing fiscal years. For this reason all forms for retirements occurring in the current month should be forwarded to the AA at least three workdays prior to month-end.

The AA is then responsible for ensuring that all retirements are entered into BEN Assets on a timely basis and that retirements in the current month should be recorded in BEN Assets prior to the end of the day on the last work-day of the month.

#### 10. Reinstatement of Retired Asset

## **Plant, Property and Equipment Procedure**

### **Asset Retirement**

**Effective: April 2008**

**Revised: September, 2009**

In the event the retirement was incorrectly recorded in BEN Assets (e.g. the wrong asset was retired in the system), the asset can be reinstated as an active asset by the AA or by PMG. Once the asset has been reinstated, as part of the month-end processing, a journal is created by BEN Assets to reverse the retirement in the General Ledger and catch-up depreciation expense is recorded for the periods during which the asset was considered to have been retired, up to the asset's becoming fully depreciated.

**Please note: An asset cannot be reinstated if it was retired in a prior fiscal year.**

## **Plant, Property and Equipment Procedure**

### **Asset Retirement**

**Effective: April 2008**

**Revised: September, 2009**

#### 11. Cannibalization of Equipment for Parts

In the event that an asset is no longer in service and its component parts are removed and used to repair other equipment, once that asset can no longer be used for its original purpose, that asset is considered to be retired and must be disposed of following the procedures outlined here.

#### 12. Mass Retirements

Where a significant number of items have been identified and approved for retirement, the School/Center which owns the assets may contact PMG to arrange for upload of the retirement information, rather than individual manual retirement of the assets within BEN Assets. The number of items to be retired is considered to be “significant” when the effort involved in manually recording the retirements is greater than the effort involved to accumulate the information for upload.

All other requirements of this procedure apply except that the manner of recording the retirement is electronic rather than manual. A spreadsheet listing the information required for the “Authorization for Retirement of Equipment” form may be attached to the form rather than submitting individual forms for each piece of equipment. In this instance, summary acquisition cost, accumulated depreciation and book value should be reported on the face of the form. Approvers should also initial and date the spreadsheet.

#### 13. Retirement of Land and Buildings

Facilities and Real Estate Services (FRES) is required to notify PMG of any retirement of land and/or buildings due to loss, sale, transfer or any other reason. Upon notification of the retirement, PMG will then record the retirement within BEN Assets. Any proceeds from the sale of land or buildings should be deposited into object code 5602 Gain/Loss on Sale of Assets. Advance notice of any impending sales or retirements is recommended so that the accounting, especially related to any complex real estate transactions, can be reviewed and, if necessary, discussed with and approved by the University’s external auditors.