

Capital Asset Accounting Policies

POLICY STATEMENT

I. Capital Asset Policy

- A. General – It is essential for both financial statement and cost accounting purposes that all departments of the University follow a uniform policy with respect to the types of expenditures capitalized and the values at which expenditures are capitalized. When there is any doubt as to the proper treatment of possible capital expenditures, contact the Manager of Plant Fund Accounting. Additionally, Government owned or Government funded purchases are subject to additional restrictions and controls imposed by the Office of Management and Budget (OMB) 2 CRF Part 200, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.” Please see the separate University policy on [Federal Property Management Standards](#).
- B. Movable Asset Capitalization Policy – Movable assets include vehicles, furniture, software, and equipment that are not part of a building. Effective July 1, 2007 expenditures for movable assets are capitalized at the invoiced cost (plus any applicable transportation and installation charges) if they meet the following criteria:
1. Have capitalized value of \$5,000 or more;
 2. Are durable (an economic estimated useful life of more than one year);
 3. Are freestanding and movable (not permanently affixed to a building or structure).
- C. Fixed Asset Capitalization Policy
1. Land – All land purchases, regardless of cost, are capitalized. When land is acquired with a building, the costs will be prorated using appraised values of the land and improvements.
 2. Buildings
 - a. New buildings are capitalized at the sum of transactions deemed to be directly related to the construction of the building upon notification the building is completed and available for occupancy.
 - b. A renovation or building addition (over \$75,000) is capitalized when it enhances the use or efficiency of the building. This amount is generally capitalized over the useful life of the space, typically 15-20 years.

The capitalized amount recognized is the total cost of the renovation/addition project less any movable equipment expense and other incidental expenses incurred during the project. Incidental expenses are deemed to be those

which do not lend to the enhancement or extension of the building life (e.g., moving and storage costs).

3. Land Improvements – This category includes roads, curbs, walkways, parking lots, streetlights, landscaping, wells, irrigation systems, drainage systems, fences, campus boundary signs, directional signage, and similar items. Items in this category will be capitalized if they cost at least \$5,000 and are durable.
4. Leasehold Improvements – These will be capitalized if:
 - a. The cost of such improvements amount to either 20% of the value of the property leased or with a minimum capitalized value of \$75,000 and
 - b. The lease is non-cancelable by either party for a period of at least five years or has renewal options, which permit it to run for at least five years.
5. Other Fixed Assets – Other fixed assets include building systems, fixed equipment, and construction in progress. Building systems include such items as elevators, HVAC units, and fire prevention systems. Fixed equipment includes items physically attached to the building that are not utilized by the whole building such as lab fume hoods and casework. Construction in progress encompasses capital assets related to open construction projects that are not movable equipment or non-capital expenses. They will be categorized into the appropriate fixed asset classification and capitalized in the year the project is complete.

D. Amount to be Capitalized–The cost values to be capitalized for a capital asset are outlined below:

1. The vendor’s invoice price for the item less any discounts. (In the case of donated items, an appraisal of the item’s current value should be used in lieu of an actual invoice price.)
2. Original incoming transportation incurred on shipments from external suppliers. For depreciation purposes, all charges of this nature should be recorded as having been incurred at the same time as the related capital asset being purchased.
3. The cost of assembly, installation, etc., relating to the capitalized item. In the event this work is performed by outside contractors, the actual price billed for such work should be capitalized. If University personnel perform this work, the capitalized cost should include the actual cost of direct labor and material cost.
4. Any parts or components necessary to make the unit function as intended.

E. Asset Types and Typical Useful Lives:

Type	Classification	Description	Useful Life
Fixed	00	Land	N/A
Fixed	01	Land Improvements	15
Fixed	11	Building	50
Fixed	12	Leasehold Improvements	50
Fixed	13	Building Systems	25
Fixed	21	Fixed Equipment	15-20
Fixed	31	Construction in Progress	N/A
Movable	22	Movable Equipment	5-10

Movable	23	Vehicles	5
Movable	24	Software/Intangibles	2-5

Leasehold improvements are typically depreciated over the lease term to which they relate, but in no case shall they be depreciated more than 50 years.

II. University Constructed Equipment

Equipment constructed on campus that is made up of multiple component parts above and/or below the capitalization threshold. The department generally uses account code 89650 to capture all the expenses related to the item. Upon completion, the department should collaborate with Research & Sponsored Programs Accounting (RSPA) and/or Plant Fund Accounting to determine a description, in service date, estimated useful life and final capitalized amount for the item. RSPA then moves the capitalized costs from account code 89650 to a capital expense account code, such as 79400; this may vary depending on the nature of the equipment.

III. Lease Rental & Installment Purchase Agreements

General– Lease agreements are classified as either installment purchase agreements or lease rental agreements. Generally Accepted Accounting Principles and governmental regulations require that installment purchase agreements be recorded as if acquiring capital property. Lease rental agreements are expensed as paid and their effect on future operations must be disclosed in the notes to the financial statements.

The purpose of this procedure is to define and distinguish between installment purchase and lease rental agreements and outline procedures for recording both types of transactions.

Each lease agreement must be reviewed to determine if it is a true rental agreement or an agreement that transfers substantially all the benefits and risks of ownership of the property.

If at the inception of a non-cancelable lease agreement any of the four criteria listed below is met, then the lease should be classified as an installment purchase:

- a) The lease transfers ownership of the property to the lessee at the end of the lease term.
- b) The lease contains a bargain purchase option. A bargain purchase option is defined as a provision allowing the lessee to purchase the leased property for a price that is substantially lower than the expected fair value of the property at the date the option becomes exercisable.
- c) The lease term is 75% or more of the estimated economic life of the lease property.
- d) The present value of the minimum lease payments at the beginning of the lease term, excluding executor costs, equals or exceeds 90% of the fair value of leased property.

Agreements with total payments exceeding \$75,000 over the term of the lease, which meet any of the above criteria will be considered as a purchase of property equivalent

to an installment purchase and recorded as a capital asset in the accounting records of the University.

If the lease does not meet any of the above criteria, it is considered a lease rental agreement. The periodic payments, under the terms of the agreement, shall be recorded as rental expense in the University's accounting system.

Any lease, which may be cancelled at any time (with no more than nominal advance notification or the payment of no more than a nominal penalty) by either the lessor or lessee, is considered a lease rental agreement.

IV. Capital Asset General Principles and Controls

- A. Asset Purchase - The most common form of purchase flows through the University's *buyND* system. The *buyND* user enters/completes an on-line purchase requisition for catalog or non-catalog purchases, including entering the proper commodity and FOAPAL codes. Workflow capability of *buyND* then routes each requisition for proper departmental and other central office approvals based on approval hierarchy for department, account, and/or commodity, as follows:
- a. To financial approver(s) if amounts are over authorized requisitioning amount (based on the departmental approved workflow);
 - b. To account code approver(s) based on administrator request;
 - c. To Research & Sponsored Programs Accounting based on Fund number (any beginning with "2" and select SAPC funds);
 - d. To Risk Management & Safety based on commodity code;
 - e. To Fixed Asset Accounting based on Account code or if the unit price on any line item is greater than or equal to \$5000.

On the initial purchase of a system you may record items as capital if they are items that work together to perform one function. Since many items can be purchased on a purchase order, the Manager of Plant Fund Accounting should be notified as to which line items comprise the system.

Additionally, Plant Fund Accounting reviews all non-invoice purchases (such as Pro-card purchases) for possible capital assets.

- B. Records for Assets – Plant Fund Accounting maintains records for each item in the Capital Asset System which includes the following information:
- a. Tag Number
 - b. Description of Item
 - c. Manufacturer's Serial Number (if applicable)
 - d. Building/Room Location
 - e. Department (Org Code) responsible for asset
 - f. Date Acquired
 - g. FOAP used for funding
 - h. Capitalized Value
 - i. Asset Condition
- C. Disposal & Relocation
- a. If your equipment contains sensitive information or hazardous materials, please contact OIT (1-5600) or Risk Management (1-5037) respectively, prior to disposal.

- b. The [Equipment Disposal or Relocation Request Form](#) should be submitted prior to the disposal of equipment. The Department Property Custodian is responsible for the equipment and for communicating information with the Plant Fund Team.
 - c. The disposal of any capital items purchased with a grant will need to be coordinated with the RSPA team, to verify ownership and to determine any further grant reporting requirements, prior to disposition. Please refer to the [Federal Property Management Standards](#) for further guidance.
 - d. Disposals should be approved by the Department Chair or designated representative for Academic units. All other departments must have a Business Manager or Director's approval for disposals.
 - e. A disposal should be recorded for moveable equipment not located at the time of physical inventory. If the item is subsequently located, its capitalized value should be re-established in the Fixed Asset records.
 - f. If an asset owner would like to sell a piece of equipment, additional attention is required. Along with the approval needed, as noted in sections (1) & (2), approval may be required from the funding agency if applicable. The sale is facilitated and selling price (should be market value) set by the selling Department. The Department Chair is responsible to ensure there is no conflict of interest. Any funds earned through the sale will reimburse the original funding source or be credited to the department for future capital needs or as determined by the Department. The Department Chair will consult with General Counsel and/or Risk Management as appropriate.
 - g. Any time a piece of equipment is relocated for more than 6 months on or off of campus, the Department Property Custodian should notify the Plant Fund team immediately with the use of the [Equipment Disposal or Relocation Request Form](#).
 - h. Inter-Departmental Transfers– One department may wish to transfer a capital item to another department, either with or without revenue realized from the transaction. The [Equipment Disposal or Relocation Request Form](#) can also be used for these transfers. The sending department should generate this request. No changes are made to the capitalized value, accumulated depreciation or the original source of funds.
- D. Tagging & Inventory
- a. Inventory Tags– As a general principle, movable equipment items will be identified as separate and distinct units. A separate radio-frequency identification (RFID) tag should be assigned to each item and be permanently affixed to the item whenever this is practical. The Plant Fund Accounting team controls the issuance of the pre-numbered RFID tags. The Plant Fund Accounting team will make an appointment with the designated Departmental Property Custodian to verify the asset and apply the tag.
 - b. Equipment kept outside of St. Joseph County will also be tagged with the RFID tags. Although the Plant Fund team will be unable to inventory these pieces, the inventory will still need to be completed by the department responsible for the equipment and communicated back to the Plant Fund Accounting team in a timely manner when requested or contacted.
 - c. Certain pieces of equipment cannot have a physical tag attached due to the size of the equipment, sensitivity of the equipment or because of dangerous conditions.

The Plant Fund team will rely on the Department Property Custodian to track and identify these pieces during inventory. A tag will still be assigned to them and kept in the Plant Fund Accounting office for consistency. A note will be entered into the Banner accounting records in the FOATEXT field as to the situation.

- d. Tagged items are physically inventoried on a biennial basis. The Manager of Plant Fund Accounting will determine a master perpetual inventory schedule, such that each department is inventoried on a biennial basis. The Plant fund team will conduct the inventory with the handheld RFID scanner. The department property custodian is responsible for the maintenance, security and custody of the assets. They assist the Plant Fund staff person to locate assets and notify them of any movement, which may include asset disposals, transfers, room location changes, etc.
- e. Please use the [Equipment Disposal or Relocation Request Form](#) for all room changes over 6 months in nature or any disposals.

V. Capital Asset Definition of Terms

The following definitions, which relate specifically to the accounting for capital assets, are presented below to afford a better understanding of these procedures.

Definitions for Capital Expenditures

1. Newly acquired item.
2. Replacement of complete units.
3. Rebuilt equipment if the rebuilding project effectively restores to like-new condition and/or significantly extends the item's useful life or markedly increases the item's net book value.
4. Accessory equipment should be considered as a portion of the capitalized value of the capital item if it was invoiced at the same time of initial purchase. However, accessory equipment, which was purchased with the intent of using it interchangeably with two or more items, should be capitalized and recorded as a separate item of equipment.
5. Accessory equipment, which is acquired subsequent to the purchase of the parent item, must have the capitalization criteria applied to it separately. These criteria will determine if the item is to be expensed or capitalized.
6. Government owned or Government supplied equipment is capitalized according to the restrictions and controls imposed by the Federal Government. (Please see separate [Federal Property Management Standards](#).)

Definitions for Non-Capital Expenditures

1. Expenditures for repairs, maintenance or replacement of component parts which do not extend the unit's original life or significantly enhance its net value.
2. Expenditures incurred in demolishing or dismantling equipment including those expenditures related to the replacement of units or systems.
3. Expenditures incurred in connection with the rearrangement, transfer, or moving of capitalized items from one university location to another, including

expenditures incurred in dismantling, transporting, reassembling, and reinstalling such items in a new location.

Noncapital costs, such as those listed above, are expensed as incurred.

Movable Assets

Consists of vehicles and software, as well as furniture and equipment that are not part of the supporting structure of a building and that meet the specific criteria for capital assets.

Fixed Assets

Consists of land, land improvements, buildings, building systems, leasehold improvements and fixed equipment including new construction, alterations and renovation projects that meet the specific criteria for fixed capital assets.

Depreciation

Depreciation is the process of allocating the cost of a capital asset over the period of time benefitted by the use of that asset, rather than deducting the cost of the asset as an expense in the year of acquisition.

A capital asset is depreciated over its estimated useful life, which is meant to be an indication of the number of years that an asset will be used for the purpose for which it was purchased.

Accumulated Depreciation

Equals the total amount of depreciation recognized for a capital asset since it was initially put in use.

Net Book Value

Represents the capitalized value of an item, less Accumulated Depreciation.

Asset Number

A unique asset number is applied to each capitalized asset for identification and control purposes.

Inventory Tag

A tag applied to all movable assets that carries a control number for identification purposes. Vehicles and software are excluded, as well as any equipment that tagging might cause a dangerous condition for the accounting staff or impact the operating performance of the item.

Repairs and Maintenance

Costs to keep equipment operating for normal use that may be recurring and regular in nature. Such costs include the replacement of any existing parts of components and any repairs that do not extend the useful life of the existing asset. Any expenditure meeting the above guidelines will be treated as repairs and will not be capitalized by the property management system.

Component Parts

Any part of a unit of equipment that cannot be used independently of the remaining piece of equipment. For property management purposes, component parts are not identified separately, but are capitalized with the system of which they are a part if purchased within the same fiscal year. If purchased at a later date, the component part would be capitalized as an individual asset, with its own unique asset

number, but identified in the accounting system as a component if it meets the University capitalization requirements on its own.

Room Number and Department Number/Org Code

Fixed assets are grouped by room numbers and department numbers (Org codes) for control and identification purposes.

RFID (Radio Frequency Identification)

RFID or radio frequency identification technology is used in the inventory process. New tags containing a RFID chip have replaced all other tags as of 6/30/13. A scanner containing the RFID technology is used during the inventory. The scanner identifies the tag and automatically updates Banner financial records for the inventory date and location.

Department Property Custodian

The Department Property Custodian is responsible for daily operations of the departmental property controls to include identification and tagging, departmental record keeping and reporting, movement, inventory and communications with Research & Sponsored Programs Accounting (RSPA) & Accounting & Financial Services (AFS).