Accounting and Administrative Manual

Section 100: Accounting and Finance

Capitalization and Depreciation Policies Date: 07/01/04
No.: A-25

General:

This policy establishes guidelines for determining when certain expenditures should be capitalized as capital assets and specifies the university's depreciation policy. Expenditures for items with an expected useful life of less than one year should not be capitalized. Depreciation is computed on a straight-line basis with useful lives of building and building components ranging from 12 to 50 years, 10 to 35 years for infrastructure and other improvements, and 4 to 10 years for equipment. Depreciation is computed by the Statewide finance offices and is recorded in the Investment in Plant fund group; no calculation or entry for depreciation is required at the unit level.

Capital Asset Types:

Equipment - an item of tangible, nonexpendable personal property with an acquisition cost of $5,000 or more per unit and a useful life greater than one year. Equipment is depreciated over various useful lives, adjusted periodically for changes in experience.

Building and building improvements - buildings are a permanent structure for shelter of persons, animals, plants, materials, or equipment. The structure must be attached to a foundation, roofed, serviced by a utility other than electricity, and on a regular maintenance schedule. Structures meeting the above criteria with a cost of $100,000 or more and a useful life greater than 15 years belong in this category.

Building improvements are capital events that materially extend the useful life of a building or increase the value of a building, or both. Replacement or restoration to original utility level does not constitute an improvement. Determinations are often made on a case by case basis.

Infrastructure - long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Infrastructure assets are often linear and continuous in nature. Examples of infrastructure include:

- Streets, roads and highways (including guard rails)
- Alleys, sidewalks and curbs
- Traffic lights/signals, street signage and street lighting
- Bridges and tressels
- Sewer collection piping and drainage systems
- Electric, water and gas (main lines and distribution lines, tunnels)

- Fiber optic and telephone distribution systems (between buildings)
- Fire hydrants
- Radio or television transmitting tower

Infrastructure with a cost of $100,000 or more and a useful life greater than 15 years belong in this category.

Other Capitalizable Assets - Assets (other than general use buildings) built, installed or established to enhance the quality or facilitate the use of land for a particular purpose. Capital assets which do not meet the definition of equipment, fixed equipment, buildings, infrastructure, etc., and have a unit cost of $50,000 or more. Other capitalizable assets do not include assets with building, infrastructure, etc. characteristics that did not meet those categories capitalization threshold. Useful lives vary depending on the asset. Examples of other capitalizable assets include:

- Fencing and gates
- Landscaping, paths and trails
- Parking lots/driveways/parking barriers
- Outside sprinkler systems
- Recreation and athletic fields (including bleachers)
- Headbolt heaters
- Outdoor tennis courts and basketball courts
- Fountains
- Retaining walls
- Plazas and pavilions

Facilities and other improvements with a cost of $50,000 or more and a useful life greater than 15 years belong in this category.

Land and land improvements - Land is the surface or crust of the earth, which can be used to support structures, and may be used to grow crops, grass, shrubs and trees. Land improvements consist of betterments, site preparation and site improvements (other than buildings) that ready land for its intended use. The costs associated with improvements to land are added to the cost of the land. Land and land improvements are characterized as having an unlimited life and are therefore not depreciated. Land and land improvements should be capitalized at the purchase price or fair market value if a gift.

The capitalized cost also includes the following:

- Commissions
- Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.)
- Land excavation, fill, grading, drainage
- Demolition of existing buildings and improvements
- Removal, relocation or reconstruction of property of others (railroad, telephone and power lines)
- Water wells (including cost of drilling, casing and pump)
- Right-of-way
- Other costs incurred in acquiring the land

Fixed Equipment - equipment or other assets that are merely attached or fastened to the building but not permanently fixed and are used as furnishings, decorations, or for specialized purposes. Fixed equipment items which are more construction in nature, such as fume hoods, counters, and lab benches will be considered as not being permanently fixed to the building if they can be removed without the need for costly or extensive alterations or repairs to the building to make the space usable for other purposes. Items which can be identified as a separate asset unit, with a cost of $5,000 or more per unit, belong in this category.

Leasehold Improvements - expenditures of $100,000 or more for construction of new buildings or remodeling/improving an existing structure by the lessee, who has the right to use these leasehold improvements over the term of the lease. These improvements will revert to the lessor at the expiration of the lease. Moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement.

Leasehold improvements are depreciated over the shorter of (1) the remaining lease term, or (2) the useful life of the improvement. Improvements made in lieu of rent should be expensed in the period incurred.

Works of art and historical treasures - Collections or individual items of significance which are not held for financial gain, but rather for public exhibition, education or research in furtherance of public service. These items are capitalized at their historical cost if purchased or fair value if donated. Collections or items are either exhaustible or inexhaustible.

Exhaustible items have useful lives that are diminished by display or educational or research applications. Exhaustible items are capitalized and depreciated over their estimated useful life.

Inexhaustible items are those items where the economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long. Because of their cultural, aesthetic, or historical value, the holder of the asset applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value. Inexhaustible items should be capitalized but not depreciated.

Donated collection items with a value of $5,000 or more should be reported to Statewide Fund Accounting at the end of the fiscal year. Donations are defined as voluntary contributions of resources by a nongovernmental entity.

Library books and media materials - A library book is generally a literary composition bound into a separate volume and identifiable as a separate copyrighted unit. Library reference materials are information sources other than books which include journals, periodicals, microforms, audio/visual media, computer-based information, manuscripts, maps, documents and similar items which provide information essential to the learning process or which enhance the quality of academic, professional or research libraries.

Library books and media materials are considered inexhaustible capital assets whose economic benefit or service potential is used up so slowly that its estimated useful life is considered extraordinarily long, and therefore are not depreciated.

Construction in progress - represents the economic construction activity status of buildings and other structures, infrastructure and additions, alterations and other improvements which will be capitalized but at the end of the fiscal year are incomplete. Depreciation is not applicable for this category since the asset is not in service.

Intangible Assets – examples include, but not limited to, copyrights, patents, manufacturing rights, good will, trademarks and trade secrets.

Intangible Assets with a unit value cost of $100,000 or more and an estimated useful life of more than one year should be capitalized. Intangible assets are depreciated over the estimated useful life.

Software - different capitalization rules apply to internal-use computer software depending on whether it is purchased or developed. In order to be considered for internal-use the software must be acquired, internally developed or modified solely to meet the university's needs; and during the software's development or modification, the university does not have a substantive plan to market the software externally to other organizations.

Software with a unit value cost of $100,000 or more and an estimated useful life of more than one year should be capitalized.

Software internally developed with a cost of $500,000 or more and an estimated useful life of greater than 10 years should be capitalized. Further guidance for developed software can be obtained from the Statewide Controller's Office.

Expenditure Types:

Repairs - costs necessary for the upkeep of property that neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition. These costs should not be capitalized.

Equipment acquisition - the purchase, lease/purchase, donation, fabrication, or transfer from other agencies of tangible nonexpendable personal property. The capitalized cost includes the original contract or invoice price and the following charges: freight, import duties, handling & storage, in-transit insurance, taxes, installation, testing & preparation for use, and parts and labor associated with the construction of the equipment. Capitalize if the per unit cost is $5,000 or more.

New construction and additions - Costs include planning costs, internal project management, legal, construction, architectural, engineering, and other costs directly identifiable with the project. Capitalize if costs exceed the capitalization threshold for the capital asset type classification.

Alterations - changing of the existing internal arrangement or physical characteristics of a room or less than 33 percent of a building so it may be more efficiently used for its designated purpose. These costs should not be capitalized.

Major repairs, remodeling, and renovation - The capitalization decision for these categories depends on the nature of the asset, including dollar threshold. If renovating an equipment item and the cost equals or exceeds $5,000, capitalize. If replacing a building system and the cost equals or exceeds $100,000, capitalize. If costs to repair/remodel/renovate are less than the dollar thresholds specified for that type of asset, do not capitalize.

> Major repairs - restoration of a facility or fixed equipment to such condition that it may be effectively utilized for its designated purpose. The repair is done by overhaul or replacement of major constituent parts that have deteriorated by action of the elements or through usage. Improvements may be treated as major repairs when the replacement is imminent or more cost effective.
>
> Remodeling - addition of quality features to existing space by upgrading mechanical or electrical systems or architectural finishes for the purpose of improving the aesthetic condition of the room or facility.
>
> Renovation - total or partial (more than 33 percent) upgrading of a facility to higher standards of quality or efficiency, or to suit a new functional use.

Accounting Treatment:

Expenditures which exceed the capitalization thresholds specified in the capital asset type definitions are presumed to be capitalizable unless listed as a repair item in Attachment A or the reason for noncapitalization is documented.

Attachment A

Work Performed	Not Capitalized	Fixed Equip*	Bldg
Asbestos removal	X		
Fume hoods replacement		X	
HVAC replacement			X
L.U.S.T. removal	X		
Install sprinklers			X
New stairway with new walls			X
Roof resurfacing or patching	X		
Roof removal and replacement			X
Install new phone system		X	
Carpet replacement		X	
Replacing defective workmanship	X		
New ramps			X
Install handrails in restroom	X		
New elevators			X
Cleaning walls of building	X		
Repainting exterior of building	X		
Resurfacing parking lot	X		
Replace louvered doors with non-louvered doors	X		
Seal pipe & duct penetrations through fire-rated walls	X		
Install one-hour smoke gaskets at fire-rated doors	X		
Install magnetic door-holders in fire-rated corridors	X		
Replace glass corridor walls with fire-rated construction	X		
Protect structural support members with fire-rated protection	X		
Replace ceiling tiles with new fire-rated tiles and new splines			X
Replace low voltage electrical distribution system			X

Attachment A - continued

Work Performed	Not Capitalized	Fixed Equip*	Bldg
Install adequate ventilation system in specialty room			X
Provide adequate exiting (doors, corridors, stairs)			X
Install emergency lighting			X
Rearrange walls for new occupants	X		

* MAU's are responsible for capturing fixed equipment information. Fixed equipment not separately identified will be included in the building category.