

Capitalization and Depreciation Procedures Policy

Capitalization Policies

The following capitalization procedures will be applied to fixed assets as defined by the Financial Accounting and Reporting Manual for Higher Educations (FARM).

1. Land
 - a. Capitalized at cost
 - b. Land and structures purchased or donated together will be separated when possible and capitalized separately
 - c. Cost of preparing the land for use will be capitalized, when material, along with the cost of the land
2. Buildings
 - a. Capitalized if -
 - i. \$25,000.00 or more and a life expectancy of at least 10 years
 - b. Additions and renovations will be capitalized if -
 - i. Cost of the project is \$25,000.00 or more, and
 - ii. The renovation extends the useful life of the facility or modifies and/or upgrades a building, i.e., installation of updated fire alarms, removal of handicapped barriers, etc
3. Improvements other than buildings
 - a. Capitalized if –
 - i. \$5,000.00 or more
 1. Examples are parking lots, sidewalks, fiber optics, etc.
4. Equipment
 - a. Capitalized if -
 - i. Cost is \$5,000 or more
 1. The cost of the equipment will include the purchase price, freight cost, insurance while in shipment, installation cost, and other cost incurred to get the equipment ready for actual use
 - ii. Acquired for use in operations and not held for resale
 - iii. Useful life is long-term in nature - It must yield services for five years or more
 - iv. It is not an integral part of another unit
5. Software
 - a. Capitalized if -
 - i. Cost is \$5,000.00 or more
 - ii. Useful life is five years or more
 - iii. Subject to a non-exclusive license, and
 - iv. Not substantially modified
6. Computer Upgrades
 - a. As of July 1, 1998 internal upgrades to machines already in service are no longer capitalized
7. Library books
 - a. Capitalized at cost if the item becomes a part of the volume count for the library

8. Art collections
 - a. Capitalized if records and values exist for the collection
 - b. Purchased items will be valued at cost and donated items at fair value. If no value can be determined then the title "collections" should be shown on the balance sheet with no amount shown and the collection then described in the notes to the financial statements.
9. Assets which are constructed by the university will be capitalized if it meets the criteria for its asset class. The value of such an asset is the direct cost of materials, labor, and installation of the item.
10. Leased equipment will be capitalized at the lower of (1) present value of the minimum lease payments during the lease term or (2) the fair value of the leased asset at the inception of the lease if it meets one of the following criteria:
 - a. Lease transfers ownership of the property to the lessee.
 - b. Lease contains a bargain purchase option which allows the lessee to purchase the leased property for a price that is lower than the expected fair value at the date the option becomes exercisable. The difference must be large enough to make exercise of the option reasonably assured.
 - c. Lease term is 75% or more of the estimated economic life of the leased property.
 - d. The present value of the minimum lease payment equals or exceeds 90% of the fair value of the leased property at the time of the lease.
11. Assets donated to the university other than art will be capitalized at fair market value if it meets the criteria for its asset class.

Depreciation Policies

Depreciation is recorded on a straight-line basis over the estimated useful life of the asset.

Useful life is:

- 40 years for buildings
- 20 years for renovations
- 10 years for improvements other than buildings
- 5 years for equipment
- 5 years for library books

Capitalization Procedures

1. Requisition for purchase is processed by the department. The inventory copy is printed by Purchasing Office then forwarded to the Accountant in the Office of Finance.
2. Invoice is processed for payment by ordering department and submitted to Office of Finance for payment.
3. Upon payment of Invoice - Budget administrator should complete the 'Add Equipment' form and forward to Accountant in the Office of Finance.
The following information should be completed on form:
 - a. Department Name
 - b. Department Account Number
 - c. Date of Claim
 - d. Serial Number
 - e. Description
 - f. Invoice Date
 - g. Cost – amount capitalized
 - h. Requisition number
 - i. Vendor Number
 - j. Location Bldg & Room #
 - k. Check Number
 - l. Check Date
 - m. Manufacturer Name
 - n. Model #
 - o. Category
 - p. Sign and Date
4. Accountant will sort from detail file for all equipment purchases and review and reconcile on a monthly basis. Upon reviewing the month's activity, differences are noted. Sometimes purchases are classified equipment when they are in fact, supplies and materials or computer upgrades. If this occurs the expense will be reclassified to appropriate code.
 - a. Accountant will approve the 'Add Equipment' form and assign an inventory tag number then return copy to budget administrator along with an inventory tag to be placed on the equipment.
5. In the month of May each fiscal year an inventory listing is sent to budget administrators to verify their equipment inventory. Any changes noted on the inventory listing should be accompanied by the appropriate form and forwarded to Accountant in the Office of Finance in order to update the inventory file for year end audit.
6. At fiscal year-end the inventory database and detailst and detail (July) files are reconciled for audit purposes.