

Policy 4202

Capitalization, Depreciation and Disposal of Capital Assets

Responsible Office	Finance	Effective Date	9/07/05
Responsible Official	Controller	Last Revision	9/22/06

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Scope

This policy provides guidelines for the capitalization of major expenses related to the acquisition, construction, and alteration of capital assets, and for the depreciation and disposal of such assets.

This policy does not cover software development or moveable equipment. For amortization of costs related to software development, refer to Policy [4203](#) Accounting for Software Costs, Computer Systems, and Business Process Reengineering. For capitalization of costs related to moveable equipment, refer to Policy [4209](#) Equipment.

Reason for the Policy

This policy seeks to:

- promote consistent and proper accounting for University assets and expenses in conformity with Generally Accepted Accounting Principles (GAAP);
- define those costs that are to be capitalized to properly reflect the cost of the asset during its useful life.

Definitions

Capital assets

Fixed equipment or buildings that are held for purposes other than investment or resale.

Capital costs

Direct and incremental expenses related to the acquisition, construction or improvement of capital assets.

Fixed equipment

Equipment that is attached to a building, that cannot be removed without the need for costly or extensive repairs to the structure to make the space useable for other purposes.

Plant, Property and Equipment (PPE)

Land, buildings, improvements and fixed equipment that appear in the University's financial statements.

Project stages

Preliminary stage

The initial stage of a construction or acquisition project during which various opportunities for acquisition or construction of PPE are explored. Feasibility studies often occur during this stage.

Preacquisition stage

When the acquisition or construction of specific PPE is considered probable. Activities often include surveying, zoning, and engineering studies.

Acquisition or Construction stage

The University obtains ownership or the rights to use the PPE through an agreement (such as a lease).

In Service stage

The PPE is substantially complete and is ready for its intended use. The *In Service Date* of a building is often the date that the Certificate of Occupancy is obtained.

Policy Statement

Costs incurred for purchase or construction of buildings, purchase or construction of fixed equipment, renovation or alteration of buildings and fixed equipment should be capitalized only if:

- the total eligible costs related to the purchase or project construction equal or exceed \$50,000, and
- the costs extend the original planned useful life of the asset by more than two years

Land costs should be capitalized but not depreciated. However, land improvements that increase the usefulness of the land but have finite lives, such as the paving of a parking lot or installation of fencing or lighting, include costs that should be depreciated over the useful life of the improvement.

Treatment of costs incurred for the demolition of an existing building depends on the intention. If land is purchased with an existing building on it, with the intent to demolish the existing building in order to make way for the construction of a new building, the cost of the demolition is considered part of the cost of the land.

Policy Sections

4202.1 Initial Project Setup

A. Capital Projects

Planned capital projects may be specific to a department or pertain to the University as a whole. If the project is budgeted to cost less than \$50,000, project costs should be expensed as incurred. If the project is budgeted to cost more than \$50,000, it needs to be approved by the following groups, which work together to ensure that proper funding is secured and costs are monitored:

Facilities Management: manages capital projects and monitors costs charged to the project

Capital Management: initiates the project setup, manages the capital budgeting and funding

Capital Projects Accounting: monitors capital accounting policy, ensures that costs charged to capital projects are accurate and reported properly in the University's financial statements.

B. Unplanned Maintenance and Renovation Projects

Unforeseen maintenance and renovation projects that do not qualify as major capital renovations involve costs that are not planned and therefore, not included in the capital budget.

Capital Renewal and Replacement Fund (CRAF): includes project costs that are considered capital assets because of their long-term nature. This is a budget mechanism to allow approval of smaller projects that are identified in the current year. CRAF project costs are greater than \$50,000 and extend the useful life of an asset by ten or more years.

4202.2 Verification of Capitalization

All costs charged to capital projects require authorization and approval by the project manager and are subject to scrutiny by the Finance department. To qualify for capitalization, indirect costs capitalized shall be directly allocable to a specific project that meets the University's criteria for capitalization. Indirect Costs capitalized must be incremental and theoretically could have been avoided if the project had not been undertaken. Individuals providing direct services to the project would normally incur these types of indirect costs qualifying for capitalization. Prior to approval, the project manager must consider the necessity of the expenditure in completing the project.

4202.3 Stages of Construction

During the preliminary stage, payments to obtain an option to acquire PPE should be capitalized. All other costs should be expensed as incurred.

During the preacquisition stage, costs are expensed as incurred unless the costs are directly identified with the specific PPE. Directly identifiable costs include only:

- incremental direct costs with independent third parties,
- internal payroll and fringe benefit costs directly charged to the specific PPE,
- payments to obtain an option to acquire PPE.

During all stages, general and administrative overhead costs should be charged to expense as incurred. This includes rent and other occupancy costs associated with the physical space.

Facilities shall notify the Controller's Office when a PPE project reaches the *In Service* date. The Controller's Office then performs the transactions necessary to move the costs from construction in progress to PPE.

4202.4 Useful Life of Capital Assets

The Office of Capital Management, in consultation with the Office of Grant and Contract Financial Administration and the Controller, maintains a list of estimated useful lives for various types of fixed assets. The Office of Capital Management is responsible for assigning the appropriate useful life to capital assets based on the list of estimated useful lives referred to above. All exceptions must be approved by the Office of Capital Management, the Office of Grant and Contract Financial Administration and the Controller's Office.

4202.5 Depreciation of Capital Assets

Depreciation of capital assets shall be calculated and recorded by the Controller's Office.

4202.6 Disposal of Capital Assets

Disposal of capital assets must be approved by the Vice President for Finance and Administration. Controller's Office shall be notified of the specific asset being disposed, the date of the disposal, and any proceeds resulting from any sale related to the transaction.

Related Information

Policy [4203](#) Accounting for Software Costs, Computer Systems, and Business Process Reengineering

Policy [4209](#) Equipment

Contacts

Subject	Contact	Phone
Initiation and approval of capital projects; useful lives of capital assets	Capital Management	432-5568
Project management	Facilities Management	Central campus: 432-2391 Medical School: 785-4718
Disposal of capital assets	Vice President for Finance and Administration	432-6754
Interpretation of policy	Associate Controller	432-5527

Roles and Responsibilities
Vice President for Finance and Administration or designee

Approves disposal of capital assets.

Controller's Office

Interprets policy regarding capital assets. Oversees accounting and reporting of capital assets. Moves capital project costs from construction in progress to PPE. Calculates and records depreciation. Determines gain or loss resulting from disposal of capital assets. Removes disposed assets from the Fixed Asset Detail.

Capital Management

Initiates planned capital projects, identifies funding and obtains approvals.

Capital Projects Accounting

Ensures that costs charged to capital projects are accurate and reported properly in the University's financial statements.

Facilities Management

Manages capital projects and monitors costs charged to these projects.

Department Business Manager

Obtains approvals for management and disposal of capital assets as set forth in this policy.

Revision History

Created on 9/7/05. Latest revision on 9/22/06.

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