

**University of Notre Dame**  
**Capital Asset Accounting Policies**  
**Last revision August 10, 2009**

**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 supplied equipment is capitalized according to the restrictions and controls imposed by the Federal Government. 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, an allocation should be made for each individually. Typically, a memo received from the Office of Asset Management will disclose a total appraised value with specific amounts for land and structure. This ratio should be applied to the purchase price to determine the capitalized amount.
  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 or 20% of the building value, whichever is less) is capital when it enhances the use or efficiency of the building. This amount is generally capitalized over the remaining useful life of the building. If the building is fully depreciated, the renovation will be capitalized for 10-20 years based on input from University personnel (i.e., Architect's Office, Utilities), if necessary.

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 have capitalized value of at least \$5,000 and are durable.
4. Leasehold Improvements – Items in this category will be capitalized if:

- a. The cost of such improvements amount to either 20% of the value of the property leased or \$100,000, whichever is less, 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 – Items in this category will be capitalized if they have capitalized value of at least \$5,000 and are durable. 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.
- E. Asset Types and Most Common Useful Lives:

<b>Type</b>	<b>Classification</b>	<b>Description</b>	<b>Useful Life</b>
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	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. 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 (e.g., Research & Sponsored Programs Accounting, Risk Management & Safety, Fixed Asset Accounting) approvals based on approval hierarchy for department, account, and/or commodity, as follows:

- To financial approver(s) if amounts are over authorized requisitioning amount (based on the departmental approved workflow);
- To account code approver(s) based on administrator request;
- To Research & Sponsored Programs Accounting based on Fund number (any beginning with “2” and select SAPC funds);
- To Risk Management & Safety based on commodity code;
- To Fixed Asset Accounting based on Account code or if the unit price on any line item is greater than or equal to \$5000.00.

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.

- B. Barcode Tags– As a general principle, movable equipment items will be identified as separate and distinct units and will remain so throughout their useful lives. A separate barcode tag should be assigned to each item and be permanently affixed to the item whenever this is practical. The Manager of Plant Fund Accounting controls issuance of the pre-numbered tags. A listing of items to tag is sent with the barcodes to the department contact designated as responsible for reviewing data and applying the tags.

Tagged items are physically inventoried on a biennial basis. The Manager of Plant Fund Accounting sends the inventory listing to departments every two years. The department contact uses the list to locate assets and note any changes to the data. This may include asset disposals, transfers, room location changes, etc. The list is then returned to the Manager of Plant Fund Accounting and edits are entered into the Capital Asset System.

- C. Records for Movable Assets–Plant Fund Accounting maintains records for each item in the Capital Asset System which should include the following information:

Barcode Number  
 Description of Item  
 Manufacturer’s Serial Number (if any)  
 Building/Room Location  
 Department  
 Document Reference  
 Date Acquired  
 FOAP  
 Capitalized Value  
 Asset Condition

- D. Movable Equipment Disposals (See *Capital Equipment Disposal Form* attached) – A disposal should be recorded whenever an item is physically disposed of (by sale, scrapping, or otherwise). The form also includes an option for ‘obsolete’ equipment which is no longer in use for its original purpose. The Manager of Plant Fund Accounting should be notified by the department to adjust the asset inventory for the retired item.

A disposal should be recorded for equipment not located at the time of physical inventory of plant equipment. If the item is subsequently located, its capitalized value and accumulated depreciation through date of disposal should be re-established in the Capital Asset System and subsequently in the appropriate asset property code in the general ledger at the end of the year.

- E. 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 *Capital Equipment Disposal Form* can also be used for these transfers. The sending department should note which department is accepting receipt of the items. No changes are made to the capitalized value, accumulated depreciation or the original source of funds.

### III) **Lease Rental & Installment Purchase Agreements**

- A. General – Lease agreements are classified as either installment purchase agreements or lease rental agreements. Generally Accepted Accounting Principles and governmental regulations require 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.

- B. 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:

1. The lease transfers ownership of the property to the lessee at the end of the lease term.
2. 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.
3. The lease term is 75% or more of the estimated economic life of the lease property.
4. 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 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 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.

##### **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.

**Barcode Tag**

A tag applied to movable assets that carries a control number for identification purposes.

**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. This definition will apply even though the component part may cost more than \$5,000.00 and have a useful life of more than one year. For property management purposes, component parts are not identified separately, but are capitalized with the system of which they are a part.

**University Constructed Equipment**

Equipment constructed on campus that is made up of multiple component parts both above and below the capitalization threshold. The department generally uses account code 89650 to capture all the expenses related to the item. Upon completion, they collaborate with Research & Sponsored Programs Accounting and/or Plant Fund Accounting to determine a description, in service date, estimated useful life and final capitalized amount for the item.

**Capital Equipment Disposal Form**

Please complete this form when University-owned capital equipment is relocated or obsolete.  
 The University capital equipment threshold is \$5,000 per item as of July 1, 2007. Prior to that, the threshold was \$2,500 dating back to July 1, 1999.

*This form must be approved by your department's Budget Administrator.*

**Date of Transaction:**

**Contact Name:**

**Title:**

**Department:**

**E-mail:**

**Phone:**

**Method of Disposition:**

Sold       Scrapper        Traded-i  
 Stolen       Obs     

**Recipient:**

**Transferred to (if applicable):**

**Dept:**       **Contact:**

**Location:**

**Sale Price:**       **FOAP # Credited:**

Tag / Univ. ID #	Description (Manufacturer, Model & Serial #)	Asset Location	Bldg
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

**Budget Administrator Approval:** \_\_\_\_\_

*Accounting Purposes:*

*Capital Asset System Updated:*  *Date Completed*

*Risk Management Notified (if applicable):*

If you have any questions regarding your equipment or this form, please contact Chuck Pope, Manager, Plant Fund Accounting at 1-8434 cpope@nd.edu. Completed forms may be submitted via email, fax (1-8549) or campus mail (815 Grace Hall).