

Capitalization Policy

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Effective Date: June 1, 2005

Reason for Policy

Last Updated: October 1, 2015

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Desmond Dair

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POLICY STATEMENT

This Policy establishes the capitalization thresholds and useful lives for capital assets held by the University. Capital assets include all tangible property purchased by or donated to the University, which have a useful life of more than one year and an acquisition cost or fair market value that exceeds certain dollar thresholds adopted by the University. Such assets do not include property acquired for sale or investment. The Policy also includes procedures for the tracking and reporting of capital asset inventories and the write-off of an asset when it reaches the end of its useful life or is disposed of by the University.

REASON FOR POLICY

This Policy includes uniform standards for the capitalization, tracking, depreciation, and disposal of capital assets in accordance with Generally Accepted Accounting Principles (GAAP) and Accounting Standards Codification (ASC) 958-360, Not-for-Profit Entities–Property, Plant, and Equipment.

WHO SHOULD READ THIS POLICY

Any employee responsible for the acquisition, transfer, or disposal of capital assets held by the University; the members of the Leadership Team, as well as supervisors and Business Managers who supervise an employee with such responsibilities.

POLICY TEXT

Historically, the University has established capitalization thresholds and useful lives for several major categories of capital assets, including the following:

Land

Land consists of unimproved real property acquired by the University for a mission-related purpose. Because land generally does not have a limited useful life, it is not depreciated. Certain land improvements, however, such as landscaping, roadways, sidewalks, and open space parking lots are capitalized in accordance with the useful life contained in **Appendix A**.

Land that is donated to the University to be held for future sale, or purchased by the University for resale, is considered an investment and is not capitalized.

Buildings and Improvements

Buildings include both on and off-campus structures held by the University for institutional purposes (i.e., not for investment or resale) and improvements made to those buildings. Such assets include the following:

- New buildings constructed on campus.
- Major building renovations that replace 75% or more of the existing internal floor plan, structure, or foundation.
- Major renovations exceeding \$1 million, but not meeting the 75% threshold above.
- Minor building improvements (under \$1 million).
- Improvements made to leased property.

Each building and improvement is assigned a useful life in accordance with the schedule in **Appendix A**.

Construction in Progress

Construction in Progress (CIP) costs consist of all costs, including planning and design costs, incurred during the construction phase of a building or improvement. CIP projects are tracked from inception by opening a new project fund in the general ledger once the project has been approved. See **Request for New Project Fund Number**.

While the construction phase of a project may take several years to complete, CIP costs are not depreciated until the assets are placed into service. See **Depreciation**.

When a project is completed, the project fund is closed and the accumulated costs are transferred to the appropriate buildings and improvements fund.

Furniture and Equipment

Furniture and equipment are capitalized if the per-unit cost of the asset exceeds \$5,000 and the asset has a useful life in excess of one year. Assets donated to the University are generally capitalized if the assets have a fair market value exceeding \$5,000, based on a donor-provided appraisal, and a useful life exceeding one year. See **Gift Acceptance Policy**.

Under certain circumstances, assets such as office or dorm room furniture are capitalized based on the total group cost of the furniture, not on a per-unit basis. For example, when an entire dorm floor undergoes scheduled mattress replacement or a new building (or renovation project) is initially furnished with new furniture, the assets are capitalized on an aggregate basis. Computers purchased by the University are also capitalized based on the total price of the equipment and not the individual components.

Furniture and equipment assets are classified under the following three categories and depreciated based on the useful life assigned to each category in **Appendix A**:

- Furniture, equipment, and fixtures,
- Vehicles, and
- Computers and related equipment.

Software purchases are expensed as incurred unless the purchase exceeds \$50,000. See **Appendix A**.

Current year computer and related equipment purchases are recorded in the general ledger under one of the following two funds:

Capital Project Fund - For computers and related equipment purchased in the current year as part of a CIP project or renovation, or

Computer Replacement Program Fund - For computers and peripherals purchased as part of the University's computer replacement program. See **Computer Replacement Policy**.

At the end of the fiscal year, accumulated purchases of computers and related equipment recorded in the two funds are capitalized on a group basis using the useful life referenced in **Appendix A**.

Art Collections and Rare Books

Works of art and rare books held in the University's collections are recorded at their original acquisition cost. Donated works of art or rare books are capitalized at their fair market value as of the date of the gift. Works of art and rare books are not depreciated, and no allowance is made for appreciation in value

Library Collections

Works of art and rare books are held by the University for educational and research purposes. These collections, which have been acquired both through purchases and donations, are not capitalized. Purchases of art and rare books are recorded as an expense at the time of purchase.

PROCEDURES

- **Authorization**
- **Tracking**
- **Disposals**
- **Sponsored Projects and Other Restricted Funds**
- **Request for New Project Fund Number**
- **Depreciation**
- **Violations**

RELATED INFORMATION

Source	Title
USF	Computer Replacement Policy
USF	Pre- and Post-Award Policies & Procedures
USF	Disposal of Surplus Property Policy (<i>under construction</i>)
USF	Gift Acceptance Policy

DEFINITIONS

Term	Definition
Accumulated Depreciation	The cumulative depreciation of an asset up to a single point in its life, i.e., the depreciation of an asset during a single period is added to the previous period's accumulated depreciation to determine the current accumulated depreciation.
Art Collections and Rare Books	Purchased or donated works of art and rare books intended for display on University grounds. Rare books are also available for research use.
Buildings and Improvements	On and off-campus buildings owned by the University that are used for institutional purposes, as well as improvements (but not repairs) to those buildings and adjacent land areas. Improvements also include equipment that is permanently attached to a structure (e.g., HVAC systems, network or electrical wiring, plumbing, carpets, windows, etc.), as well as major or minor construction and renovation changes that add useful space or extend the useful life of the structure.
Business Manager	A University employee, designated by the President, Vice President, Vice Provost, or Dean who is the financial manager for the University account(s) being used for the expense. This may include the President, Vice Presidents, Vice Provosts, or the Deans.
Construction in Progress (CIP)	All costs incurred to construct a building or improvement prior to placing the building or improvement into service. Such costs include design, construction, project management, incidental, and finishing costs. Project management salaries are also allocated to specific CIP accounts on a pro rata basis.
Depreciation	A non-cash expense recorded to reflect the gradual reduction in the usefulness or value of a long-term tangible asset. Depreciation is recorded by the University on a straight-line basis over the useful life of the asset. See Depreciation .
Furniture and Equipment	Movable furniture and equipment with a per-unit value of \$5,000 or more and a useful life in excess of one year.
Land	Unimproved real property purchased by or donated to the University for institutional use.
Land Improvements	Non-structural improvements made to campus land.
Library Collections	Books held by the University's libraries, including the branch campus libraries.

Useful Life

The estimated period over which services are expected to be rendered by an asset. Estimates of useful life are made by the University in accordance with GAAP and industry guidelines for assigning useful lives.

ADDITIONAL CONTACTS

Subject	Contact	Phone	Email
ABS	Desmond Dair	415.422.6732	ddair@usfca.edu
Financial Reporting	Julia Terhaar	415.422.6034	jcterhaar@usfca.edu

FORMS

Form	Use	Location
Project Fund Request Checklist	Used to request a fund number for a new building or major renovation project.	ABS
IT Project Fund Request Checklist	Used to request a fund number for a major ITS project or systems upgrade.	ABS

RESPONSIBILITIES

Department/Business Manager

- Annually reports equipment inventories and disposals to ABS, as required.

Accounting and Business Services

- Records, capitalizes, and depreciates capital assets in accordance with GAAP and ASC 958-360.
- Makes useful life assignments to categories of capital assets held by the University.
- Prepares the capitalization journal entries as part of the fiscal year-end closing process.
- Ensures that CIP projects are placed into service appropriately and that depreciation expenses are recorded in accordance with this Policy.
- Maintains schedule of all equipment and furniture purchases by building.

Vice President for Business and Finance

- Approves changes in capitalization thresholds in response to building, equipment, and related cost trends.

- Reviews and approves requests for project fund numbers, as appropriate.

President, Vice Presidents, Vice Provosts, and Deans

- Ensures that employees with capital asset responsibilities in his or her division are in compliance with this Policy.
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FREQUENTLY ASKED QUESTIONS

(N/A)

REVISION HISTORY

- 10/01/2015 - Revised to reflect the accounting treatment of art collections and rare books.
 - 03/03/2015 - Revised to include the mid-year convention for the depreciation of capital assets, references to other policies and forms, and related changes.
 - 05/31/2011 - Revised to include several technical changes
 - 06/01/2004 - First publication of Policy.
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APPENDICES

Appendix A - Capital Asset Useful Lives

PROCEDURES

- **Authorization**
 - **Tracking**
 - **Disposals**
 - **Sponsored Projects and Other Restricted Funds**
 - **Request for New Project Fund Number**
 - **Depreciation**
 - **Violations**
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AUTHORIZATION

The dollar thresholds set forth in this Policy for the capitalization of assets are subject to review and revision based on GAAP, industry standards, and changes in building, equipment and related costs levels. Any change in the capitalization thresholds requires advance written approval by the Vice President for Business and Finance. Such changes, however, shall not be implemented retroactively in order to affect prior period depreciation expense recorded in the general ledger.

Before a new capital project fund number will be established by the Office of Accounting and Business Services (ABS), prior approval must be obtained from the Vice President for Business and Finance or the Vice President of Information Technology Services (for technology projects), as appropriate. See **Request for New Project Fund Number**.

TRACKING

Under the University's property management procedures, the vast majority of its capital assets are tagged and inventoried. All library books are numbered and tracked by the University's libraries. Vehicles are tracked by ABS, Risk Management. Computer equipment is tagged and tracked by Information Technology Services; buildings and improvements are tracked by ABS, Controller's Office. Although some equipment and furniture is not individually tagged, ABS maintains a schedule of all equipment and furniture purchases by building.

Certain departments are also required to annually report equipment inventories and asset disposals, including sales and donations of assets, so that such items are written off at year-end, as appropriate. Departments must provide this information to ABS in order to ensure that property, plant, and equipment balances recorded in the University's financial statements are materially correct.

DISPOSALS

The University generally does not dispose of a capital asset prior to the end of its useful life; however, in the event of breakage, theft, or other loss of use, ABS will remove the asset and corresponding depreciation from the balance sheet. A gain or loss will be recorded, as appropriate, related to the asset disposal. In the event a capital asset is sold, a gain or loss is recognized based on the sales price compared to the net book value of

the asset (original book value less any accumulated depreciation). See Disposal of Surplus Property Policy.

Capital assets are generally written off (i.e., removed from the balance sheet) when they are fully depreciated, as follows:

- **Furniture and Equipment** - Such assets are written off when they reach the end of their useful lives. No gain or loss is recognized on these transactions.
- **Buildings and Improvements** - A building is written off if it is completely renovated (i.e., over 90% of the floor plan, structure, and foundation is replaced) or the building becomes otherwise unusable.

These write-offs are performed by ABS as part of the annual depreciation update process.

SPONSORED FUNDS AND OTHER RESTRICTED FUNDS

Equipment purchases made with sponsored contract or grant funds are subject to the requirements set forth in this Policy. Generally, the University holds title to all equipment purchased with University funds, including contract and grants funds and other restricted funds. Title to equipment purchased with federal funds normally vests with the University unless an exception is specified in the contract or grant agreement. However, equipment purchases of \$5,000 or more per unit must be approved in advance by the federal sponsor. Such approvals may be provided in the contract or grant award document, approved budget, or in correspondence from the contracting or grants officer. See Office of Contracts and Grants **Pre- and Post-Award Policies & Procedures**

REQUEST FOR NEW PROJECT FUND NUMBER

A new fund number must be assigned for each major capital project approved for development, as follows:

- New Buildings and Major Renovations – Fund number requests should be made using the **Project Fund Request Checklist form**, which requires approval by the Vice President for Business and Finance.
- Major Systems, Software, or Computer Equipment Projects – Fund number requests should be made using the **IT Project Fund Request Checklist form**, which requires approval by the Vice President of Information Technology Services.

In either case, the approved form must be submitted to ABS for assignment of a new fund number.

DEPRECIATION

ABS annually prepares capitalization journal entries as part of the fiscal year-end closing process. Depreciation expense is recorded in the general ledger on a straight-line basis using the asset useful lives contained in **Appendix A**. In addition, the University uses the mid-year depreciation convention to account for the year that an asset is placed into service and the year it is disposed of or retired.

Under the mid-year convention, depreciation is calculated by treating all newly acquired assets as if they were placed into service on the first day of the second half of the fiscal year (i.e., December 1), the midpoint of the University's fiscal year. Thus, six (6) months of depreciation is calculated for the first year an asset is

placed into service, regardless of the actual date it was placed into service. Similarly, an asset that is retired is treated as retired on the first day of the second half of the fiscal year. Accordingly, 6 months of depreciation is recorded regardless of the actual disposition date of the asset.

VIOLATIONS

Intentional violations of any portion of this Policy may result in disciplinary action, up to and including termination of employment and/or legal action.

Capital Asset Useful Lives

Appendix A

Capital Asset	Dollar	Threshold	Useful Life (Years)
<i>Buildings and Other Improvements</i>			
Land improvements, e.g., landscaping, roadways, sidewalks, open parking lots, etc.		N/A	20
New buildings		N/A	50
Major renovations that replace 75% or more of the existing internal floor plan, structure, or foundation		N/A	50
Major renovation that replace less than 75% of the existing internal floor plan, structure, or foundation	>1,000,000		25
Minor building improvements	<1,000,000		15
Improvements to leased property		N/A	Shorter of lease term or useful life
<i>Furniture and Equipment</i>			
Furniture, equipment, and fixtures	>5,000		10
Vehicles	>5,000		5
Computers and related equipment		N/A	3
Software	>50,000		3
<i>Library Collections</i>			
Books		N/A	50

¹ Computers and related equipment are capitalized on a group basis and not the per-unit cost of such assets.