

ICOFA GUIDELINES FOR CAPITAL ASSETS - CAPITALIZATION THRESHOLDS

The universities financial statements report capital assets in accordance with standards established by the Governmental Accounting Standards Board (GASB). A capital asset is real or personal property with a cost equal to or greater than an established capitalization threshold and an estimated useful life extending beyond one year.

The universities' capital asset maximum thresholds for financial statement reporting are listed below. Universities may establish lower thresholds.

CAPITAL ASSET CATEGORY	CAPITALIZATION THRESHOLD
Land and Land Improvements	All
Intangible Assets (includes computer & ERP software and licenses)	\$4,000,000 FAMU: \$1,000,000
Buildings and Building Improvements	No threshold for Cost of all new <u>building</u> construction, or renovation projects that add new square footage. \$250,000 for Renovation projects <u>that do not add new square footage.</u> FAMU: \$100,000 for Renovation projects that do not add new square footage.
Infrastructure and Infrastructure Improvements	\$250,000 FAMU: \$100,000
Leasehold Improvements	\$250,000 FAMU: \$100,000
Property Under Capital Lease	Use the threshold for the appropriate asset category
Construction Work in Progress	Accumulate all costs and capitalize when completed, based on appropriate asset category
Furniture and Equipment (includes non-circulating books and reference materials)	\$5,000
Works of Art and Historical Treasures - Depreciable	\$5,000
Works of Art and Historical Treasures – Non-Depreciable	\$5,000
Library Resources - Depreciable (circulated to students or the general public)	\$250; or <u>All additions to the library catalog will be capitalized</u> capitalized as additions to the catalog, irrespective of individual item costs, as a group

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Library Resources – Non-Depreciable ((Non-circulating)Special Collections)	\$250,000; or capitalized as additions to the catalog <u>All additions to the library catalog will be capitalized, irrespective of individual item costs, as a group</u>
Other Capital Assets (includes Livestock & Animals)	\$5,000

Capital assets should be reported at historical cost at the date of acquisition. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, and professional fees.

When the historical cost of a capital asset is not practicably determinable, the estimated historical cost of the asset should be determined by reasonable and appropriate methods, and recorded.

Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.

Improvements made to a capital asset that extends the useful life of the asset beyond one year and meet the guidelines above should be capitalized.

Capital Assets that are not being depreciated should be disclosed separately from those that are being depreciated.

Collections already capitalized at June 30, 1999, should remain capitalized and all additions to those collections should be capitalized, even if they meet the conditions for exemption from capitalization.

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NOTE: For collections not capitalized, disclosures should provide a description of the collection and the reasons these assets are not capitalized.

A government is encouraged to capitalize a collection whether donated or purchased if it meets all of the following conditions. The collection is:

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1) Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.

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2) Protected, kept unencumbered, cared for, and preserved.

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3) Subject to an organization policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

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Capital Asset Definitions and Categories

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 that ready land for its intended use. The cost associated with land improvements is added to the cost of land and should be recorded in the General Ledger. Land and land improvements should not be depreciated.

Intangible Assets

Intangible assets lack physical substance, are nonfinancial in nature (i.e., not in a monetary form similar to cash and investment securities, and represent neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services), and have an initial useful life beyond one year.

Common types of intangible assets include:

- Computer software
 - Purchased or licensed
 - Internally generated
- Easements
- Land use rights (e.g., water, timber, and mineral rights)
 - Note: land use rights obtained with land acquisitions or associated with land already owned should not be reported separately from the land.
- Patents, copyrights, and trademarks

Intangible assets with a cost equal to or greater than the threshold and a useful life extending beyond one year should be capitalized. Assets costing below the threshold should be expensed. (Note: [universities](#) ~~Entities with separately issued financial statements~~ may use lower capitalization thresholds.)

Internally Generated Intangible Assets

Intangible assets are considered internally generated if created or produced by the university or by an entity contracted by the university or if acquired from a third party but require more than minimal effort to place into service.

Computer software is commonly internally generated. The following activities would satisfy the “more than minimal effort to place into service” criterion: changing code, changing fields, adding special reporting capabilities, and testing any changes.

Outlays incurred in the Preliminary Project Stage and the Post-Implementation/Operation Stage should be expensed as incurred. Outlays incurred in the Application Development Stage should be capitalized.

The Application Development Stage activities include the design of the chosen path, including software configuration and software interfaces, coding, installation of hardware, testing, including the parallel processing phase, and data conversion needed to make the software operational.

All outlays related to activities in the application development stage should be capitalized, provided the following conditions are met:

1) the outlays were incurred subsequent to the completion of the preliminary project stage, and 2) management authorizes and commits to funding (either implicitly or explicitly), at least through the current period.

Capitalization of such outlays should cease once the software is substantially complete and operational (i.e., ready for use).

When internally generated computer software development projects span more than one year, total projected application development costs should be considered when applying the capitalization threshold, not outlays incurred in individual years.

Outlays associated with an internally generated modification of computer software that is already in operation should be capitalized if the modification results in an increase in the functionality of the computer software, an increase in the efficiency of the computer software, or an extension of the estimated useful life of the software. If the modification does not result in any of the above outcomes, the modification should be considered maintenance, and the associated outlays should be expensed as incurred.

Buildings and Building Improvements

A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable. A building is generally used to house persons, property, and fixtures attached to and forming a permanent part of such a structure.

Building improvements are capital events that materially extend the useful life of a building or increase the value of a building, or both beyond one year. Building improvements should not include maintenance and repairs done in the normal course of business.

Examples of items to be capitalized as buildings and building improvements are:

- Original purchase price
- Costs for remodeling, reconditioning, or altering a purchased building to make it ready to use for the purpose for which it was acquired
- Environmental compliance
- Professional fees (i.e. legal, architect, inspections, and title searches, etc.)
- Payment of unpaid or accrued taxes on the building to date of purchase
- Cancellation or buyout of existing leases
- Completed project costs of constructed buildings
- Cost of building permits

- Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
- Additions to buildings (i.e. expansions, extensions, or enlargements)
- Conversion of attics, basements, etc. to usable office, clinic, research or classroom space
- Structures attached to the building such as covered patios, sun rooms, garages, enclosed stairwells, etc.
- Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents
- Original installation or upgrade of wall or ceiling covering such as carpeting, tiles, paneling, or parquet
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing
- Installation or upgrade of window or doorframe, upgrading of windows or doors, built-in closet, and cabinets
- Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
- Exterior renovation such as installation or replacement of siding, roofing, or masonry, etc.
- Installation or upgrade of plumbing and electrical wiring
- Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, or wiring required in the installation of equipment (that will remain in the building)

Examples of items to be considered maintenance and repairs and not capitalized as buildings are:

- Adding, removing, and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building or add new square footage
- Improvement projects of minimal or no added life expectancy and/or value to the building
- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Asbestos abatement
- Exterior decoration such as detachable awnings, uncovered porches, decorative fences, etc.
- Maintenance-type interior renovation such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections, sink and fixture refinishing, etc.
- Maintenance-type exterior renovation such as repainting, replacement of sections of deteriorated siding, roof, or masonry, etc.

The lists of examples provided above are not intended to be all-inclusive. Universities should make determinations on a case-by-case basis.

Infrastructure and Infrastructure Improvements

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and street lighting systems. Infrastructure assets should be capitalized and depreciated unless the modified approach is used. To use the modified approach, the infrastructure assets have to

comprise a network or subsystem of a network (eligible infrastructure assets), and the following criteria are met:

- 1) The assets are managed using a qualifying asset management system.
- 2) It is documented that the assets are being preserved at or above a condition level established by the government.

Improvements made to infrastructure assets that extend the useful lives or increase the value of the assets, or both, beyond one year should also be capitalized.

Leasehold Improvements

A leasehold improvement is an improvement made to a leased building or infrastructure asset by a university that has the right to use this leasehold improvement over the term of the lease. This improvement will revert to the lessor at the expiration of the lease. The lessor may be another state agency or someone outside the state government. The lessee generally should be responsible for recording the improvement if the lessee pays for the improvement.

Leasehold improvements should not include maintenance and repairs done in the normal course of business. Further, moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement (See section on Buildings and Building Improvements for examples on maintenance and repairs).

Property Under Capital Lease

Assets should be capitalized if the lease agreement meets any one of the following criteria:

- 1) The lease transfers ownership of the property to the lessee by the end of the lease term.
- 2) The lease contains a bargain purchase option.
- 3) The lease term is equal to 75 percent or more of the estimated life of the leased property.
- 4) The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90 percent of the fair value of the leased asset.

A lease that does not meet any of the above capitalization requirements should be reported separately as an operating lease.

Construction Work in Progress

Construction work in progress reflects the economic construction activity status of buildings and other structures, infrastructure, additions, alterations, reconstruction, and installation, which are substantially incomplete.

Construction work in progress assets should be capitalized to their appropriate capital asset categories upon the earlier occurrence of:

1. Certificate of Substantial Completion
2. Certificate of Occupancy or actual occupancy
3. When the asset is placed in service.

It is the university's responsibility to track all costs related to construction work in progress so that the final value of the constructed asset is correctly captured. The capitalization threshold for a project should not be circumvented due to multiyear appropriations for the project.

Furniture and Equipment

Furniture and equipment include fixed or movable tangible assets to be used for operations, the benefits of which extend beyond one year from date of receipt and rendered into service. Example of furniture and equipment are machinery, computers, printers, radios, and vehicles, etc.

Also included in furniture and equipment are books and other reference materials that are not circulated to students or the general public (not contained in a publicly supported library). Books and other reference materials that are circulated to students or the general public are considered library resources.

Works of Art and Historical Treasures – Depreciable

Works of art and historical treasures, should be capitalized at their historical cost at acquisition or fair value at the date of donation (if donated) whether they are held as individual items or in a collection unless they belong to a collection. Governments are encouraged, but not required, to capitalize a collection (and all additions to that collection) whether donated or purchased that meets all of the following conditions. See below for collection criteria. The collection is:

- 1) Held for public exhibition, education, or research in furtherance of public service, rather than financial gain
- 2) Protected, kept unencumbered, cared for, and preserved
- 3) Subject to an organization policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Collections already capitalized at June 30, 1999, should remain capitalized and all additions to those collections should be capitalized, even if they meet the conditions for exemption from capitalization.

The cost of capitalized works of art and historical treasures should be depreciated over the estimated useful lives unless the works of art and historical treasures are inexhaustible. An inexhaustible capital asset is one whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinarily long.

Works of Art and Historical Treasures – Non-Depreciable

Works of art and historical treasures should be capitalized at their historical cost at acquisition or fair value at the date of donation (if donated) whether they are held as individual items or in a collection. Governments are encouraged, but not required, to capitalize a collection (and all additions to that collection) whether donated or purchased that meets all of the following conditions, if they belong to a collection that meets the following criteria: The collection is:

- 1) ~~The collection is held~~ Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- 2) ~~The collection is protected~~ Protected, kept unencumbered, cared for, and preserved.
- 3) ~~The collection is subject~~ Subject to an organization policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Capital Assets that are not being depreciated should be disclosed separately from those that are being depreciated.

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Collections already capitalized at June 30, 1999, should remain capitalized and all additions to those collections should be capitalized, even if they meet the conditions for exemption from capitalization.

NOTE: For collections not capitalized, disclosures should provide a description of the collection and the reasons these assets are not capitalized.

Library Resources - Depreciable

Library resources are information sources that are circulated to students or the general public such as books, journals, periodicals, 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 resources should be capitalized at their historical cost at acquisition or fair value at the date of donation (if donated). All additions to the library catalog will be capitalized.

Library Resources – Non-Depreciable

Non Depreciable Library resources ~~also referred to as~~ may include Special Collections* and should be capitalized at their historical cost at acquisition or fair value at the date of donation (if donated) whether they are held as individual items or in a collection. All additions to the library catalog will be capitalized. Refer to Works of Art and Historical Treasures for the criteria for collections. if they belong to a collection that meets the following criteria:

- 1) ~~The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.~~

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~~2) The collection is protected, kept unencumbered, cared for, and preserved.~~

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Capital Assets that are not being depreciated should be disclosed separately from those that are being depreciated.

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Collections already capitalized at June 30, 1999, should remain capitalized and all additions to those collections should be capitalized, even if they meet the conditions for exemption from capitalization.

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NOTE: The Non-Depreciable Library Resources may be reported in total with Non-Depreciable Works of Art and Historical Treasures for financial reporting purposes.

*Special Collections contain items that are available to be viewed in the Library, but are not circulated. Special Collections may contain historical items, original manuscripts, rare books, historical books, memoirs, etc.

Other Capital Assets

Other capital assets are those capital assets that are not otherwise classified in another capital asset category.

This category includes animals, horses and livestock.