THE UNIVERSITY OF ALABAMA | Division of Finance and Operations

Capitalization Policy

Unit: Financial Accounting and Reporting
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Purpose

Generally Accepted Accounting Principles (GAAP) require the capitalization of costs associated with the acquisition or construction of property, plant and equipment (PPE). This policy applies to all capital assets. It defines the various capital asset classifications and provides direction regarding when to capitalize an asset and how to depreciate an asset.

Policy

Capital Assets are defined as land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, books and maps, works of art and historical treasures, infrastructure and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Capital assets are recorded at cost at the date of acquisition, or at estimated acquisition value at date of gift, and are depreciated on a straight-line basis over the useful life of the asset.

Capital Asset Classifications

- **Land.** This category includes all land and easements that are purchased or acquired by gift or bequest. If the land or easement is purchased, its cost is the amount paid for the purchase plus all ancillary charges such as broker and legal fees. If the land or easement is acquired by gift or bequest, its cost is recorded at estimated acquisition value at the date of the gift or bequest. The transfer of title to the University is required prior to recording the land or easement on the books. Land and easements are not depreciated.
- **Land Improvements.** This category includes enhancements to land other than buildings such as parking lots, fencing, gates, athletic fields and parking lot lighting. Land Improvements with a total cost of $100,000 or greater are capitalized. Work to maintain land improvements in existing condition is expensed. Work to improve land improvements is capitalized. Land improvements are depreciated over 20 years.
- **Buildings.** This category consists of all structures used for operating purposes. All new construction is capitalized. All direct costs of construction are included in the cost of the building. Included are all permanently attached fixtures, machinery, and other components that cannot be removed without damaging the building. Costs to initially furnish the building are also included. Buildings are depreciated over 25 - 50 years. Years of depreciation depends on type of construction. Stick and brick construction is depreciated over 30 years. Concrete masonry, steel and rebar construction is depreciated over 50 years.
- **Building Improvements.** This category includes additions, renovations and major repair projects. Building Improvements are capitalized if they meet the following criteria:
    1. Have a total cost greater than or equal to $100,000 and one of the following;
    2. Result in additional asset services (expanded facilities) or;
    3. Result in more valuable asset services (upgraded facilities) or;
    4. Extend normal service life.

  Expenditures should not be capitalized if they are incurred to maintain assets in good operating condition; and/or do not meet the criteria for capitalization as stated above. Building Improvements are depreciated over 25 - 50 years.

- **Fixed Equipment.** Service equipment permanently attached to a structure that was not a part of the original construction cost. Costs include electrical lighting and power fixtures, elevators, heating and ventilation, air conditioning, sprinkling and fire protection systems, casework, etc. Fixed Equipment with a cost of $100,000 or greater is capitalized. Fixed Equipment is depreciated over 10 - 15 years.
- **Infrastructure.** Long-lived capital assets that can be preserved for a significantly greater number of years than most capital assets and that are normally stationary in nature. This category includes items such as streets, street lighting, roads, sidewalks, curbs, utility distribution systems and storm sewers. Infrastructure with a cost of $100,000 or greater is capitalized. Work to improve infrastructure assets is capitalized. Work to maintain infrastructure is expensed. Infrastructure is depreciated over 20 years.
- **Intangible Assets.** Assets that lack physical substance, are nonfinancial in nature and have useful lives extending beyond a year. An intangible asset is capitalized only if it is considered 'identifiable,' meaning that the asset either a) is capable of being separated or divided from the institution and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations. Intangible assets are amortized over the estimated useful life of the asset. If the intangible asset is deemed to have an indefinite useful life, then the asset is not amortized.
- **Equipment.** Equipment represents personal property that is moveable. This includes office equipment, lab and scientific equipment, tools and machinery, recreation equipment, kitchen equipment, maintenance/janitorial equipment, vehicles and general equipment. The minimum threshold at which equipment should be capitalized is $5,000, set by The Board of Trustees effective 10/01/2005. Purchased equipment is recorded at cost, which is the amount invoiced less all discounts plus any freight and installation costs. The cost of fabricated equipment includes all direct costs associated with the fabrication and installation of the item. Donated equipment is recorded at estimated acquisition value as of the date of the gift. Moveable equipment is depreciated over its useful life of 5-15 years. For additional guidance, see the Property Management Policies and Procedures Manual (http://fawp.ua.edu/surplus/property-management-policy/).
- **Software implementations/upgrades.** This category will be capitalized if cost equals or exceeds $100,000 and an estimated useful life of greater than one year.
  Software is capitalized once it is placed in use and is depreciated over its estimated useful life. Training costs and data conversion costs are expensed as incurred.
- **Audio Visual System Equipment.** Audio visual equipment that is part of a system by nature can be used in different configurations and combinations and relocated with ease. Since tracking of each piece is not reasonable, these items will be capitalized as a group purchase at year end and depreciated over an estimated useful life of 10 years when the individual purchase (by purchase order) exceeds $5,000. An Audio Visual item that exceeds the $5,000 threshold and can be used separately from the system will be capitalized in the equipment category and inventoried by Property and Inventory Management.
- **Servers and Switches.** Servers and switches that are a part of a system by nature can be used in different configurations and combinations and relocated with ease. Since tracking of each piece is not reasonable, these items will be capitalized as a group purchase at year end and depreciated over an estimated useful life of 10 years when the individual purchase (by purchase order) exceeds $5,000.
- **Furniture.** Furniture by nature can be used in different configurations and combinations and relocated with ease. Since tracking of each piece is not reasonable, these items will be capitalized as a group purchase at year end and depreciated over an estimated useful life of 10 years when the individual purchase (by purchase order) exceeds $5,000. Furniture in capitalized construction projects is included in the cost of the construction.
- **Library Books.** Library books will be capitalized in the University's financial records at cost. They are depreciated over an estimated useful life of 10 years. UA considers library books and maps to be a group asset and capitalizes each year's additions to the holdings. Library books are capitalized at their purchase price plus transportation and incidental costs. Donated books are recorded at estimated acquisition value as of the date of the gift. Periodicals and subscriptions are expensed as incurred. Rare books that are considered collections similar to works of art and historical treasures follow the guidelines for Collections.

- **Collections.** Collections are defined per Governmental Accounting Standards Board (GASB) Statement No. 34 as "works of art, historical treasures, or similar assets that are (a) held for public exhibition, education, or research in furtherance of public service rather than financial gain, (b) protected, kept unencumbered, cared for, and preserved, and (c) subject to organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections." Collections are not depreciated. Except for research additions, all items for Collections are processed through advancement (e.g. gifts in kind) and purchases specifically made for the collection will be capitalized, and a write-up of the collection value will occur. Research additions do not have a readily determinable value and thus will not increase the collection value. Collections on the UA campus are maintained by the department that owns the collection. Those departments maintain an accession register for collection items. The department, not Property Management, will bear the responsibility of verifying the existence and maintenance of the collection for UA. Accounting will record any additions to collections. Property and Inventory Management will be responsible for inventorying and recording any portraits and antiques that are purchased or gifted to UA. These items would not be part of an accession register of a collection. These items are recorded at purchase price or estimated acquisition value as of the date of the gift and are not depreciated.
- **Interest costs.** Interest cost incurred before the end of a construction period is recognized as an expense in the period in which the cost is incurred and is not capitalized per GASB Statement No. 89.
- **Construction in Progress (CIP).** Costs incurred in connection with projects undertaken for the construction or renovation of capital assets. Costs remain in CIP until the project is substantially complete and the building or other constructed asset is placed in service. All costs are then removed from CIP and recorded to the appropriate classification. If the funding source on a construction project is a grant from a local, state or federal agency, the construction fund is created in a restricted fund type to ensure any fund balance is reported as Restricted Expendable on the Statement of Net Position.
- **Excess Project Management Fees.** Excess project management fees that are not allocated to a specific project are capitalized annually as an asset and depreciated over an estimated useful life of 30 years.
- **Leased Property.** Leased property must be capitalized if the lease arrangements meet any one of the requirements of SFAS No. 13 (codified with GASB 62), as follows:
    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 economic 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 property.

Related Guidance: GASB Concepts Statement No. 4, GASB Statement No. 34, GASB Statement No. 51, GASB Statement No. 62, GASB Statement No. 89

Summary of Capitalization Categories

Asset Type	Acquirement Method	Capitalization Threshold	Responsible Owner	Useful Life
Land	Purchased or acquired by gift/bequest	ALL	Financial Accounting and Reporting (FAR)	N/A
Land Improvements	Construction Projects	$100,000 and greater and work is to improve, not just maintain	FAR	20
Infrastructure	Construction Projects	$100,000 and greater and work is to improve, not just maintain	FAR	20
Buildings	Additions, Renovations, Major Repairs	ALL	FAR	25-50
Building Improvements	Purchase or Gift in Kind	$100,000 and greater and meet one of 3 criteria: 1. Result in additional asset services (expanded facilities) 2. Result in more valuable asset services (upgraded facilities) 3. Extend normal service life	FAR	25-50
Fixed Equipment	Purchase or Gift in Kind	$100,000 and greater	FAR	10-15
Equipment	Purchase or Gift in Kind	$5,000 and greater per unit of equipment	Property and Inventory Management	5-15
Furniture	Purchase or Gift in Kind	$5,000 or greater per purchase order and not part of a capitalized construction project – recorded as group purchase at year end	FAR	10
AV System Equipment/Servers and Switches	Purchase or Gift in Kind	$5,000 or greater per purchase order – recorded as group purchase at year end	FAR	10
Software	Purchase, projects, or Gift in Kind	$100,000 or greater and meets 4 criteria and life greater than 1 year (no licenses that last for one year or less)	FAR	3 or more
Library Books	Purchase or Gift in Kind	Recorded as a group on annual basis	FAR	10
Collections	Purchase or Gift in Kind	ALL except research additions	FAR, Department	N/A
Antiques and Portraits	Purchase or Gift in Kind	ALL	FAR	N/A
Intangible Assets	Purchase or Gift in Kind	Only if considered identifiable	FAR	Varies

Scope

This policy applies to Financial Accounting and Reporting staff, Property and Inventory Management staff, and department staff that maintain collections

Office of the Vice President of Finance and Operations

Signed: DocuSigned by: Cheryl Mowdy 7/1/2019
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