

Capital Asset Guidelines Update

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Capital Assets Defined

- Tangible or Intangible item(s) with the following characteristics:
 - Expected Useful life greater than 1 year
 - Acquisition Cost exceeds capitalization threshold
 - If gift or transfer, capitalization value would be fair value at date of transaction.
 - Not part of normal business operation inventory for resale
- Capital assets may be acquired via purchase, donation, construction or transfer.



Types of Capital Assets

- Land and Land Improvements
- Building and Building Improvements
- Facilities and Other Improvements
- Equipment (including machinery, furniture, vehicles)
- Infrastructure
- Capitalized Collections (works of art, historical treasures)
- Library Collections
- Intangible Assets (including software)
- Leased Assets
- Construction in Progress



Land and Land Improvements

- Land - earth surface that can support structures
- Land improvements – Site improvements to ready land for intended use.
- Inexhaustible life, not subject to depreciation

➤ *Note: Land held for investment purposes should not be recorded as Capital Assets. Record as Investments.*



Building and Building Improvements

- Building – Asset permanently attached to the land, has a roof, walls and is not intended to be transported.
- Building Improvement/Addition – Capital events that materially extend the useful life of a building or increase its value or both.
 - Building improvement/Addition should be recorded if it exceeds the capital asset threshold (\$100,000) or increases the useful life or value of a building by 25%.
 - Should be recorded using Parent/Child asset management relationship with original asset as Parent and improvement as Child.
 - Generally depreciable period of Child addition should not exceed that of original asset (Parent). However, an exception may exist for an improvement that is not an integral part of original building.

- *Note: All Building and Building Improvements must include a Residual Value, which is essentially the salvage value of an asset that is fully depreciated. For our purposes, residual value is set at 10% of historical costs.*



Facilities and Other Improvements

- Assets that are built, installed or established to enhance quality or facilitate use of land for a particular purpose.
 - Examples would be fencing, gates, signs, driveways, parking lots, lighting systems, retaining walls, swimming pools, etc.
 - Capitalization threshold is \$100,000.
 - Improvements follow same criteria as that for building.
Capitalize if improvement is \$ 100,000 or more and if improvement increases life or value of asset by 25%.
- As with Buildings, Facilities and Other Improvements should have a residual value component.
- Generally Leased Assets with ground lease in effect have no residual value.



Equipment

- Machinery, furniture, farm equipment, vehicles and other personal property, such as printers, computers, audio visual, communication systems, etc.
- Capitalization threshold is \$ 5,000.
 - *Note: Costs of extended warranties and maintenance agreements should not be capitalized if costs can be separately identified.*



Infrastructure

- Long lived assets that are stationary in nature and preserved for use over a long period of time.
- Road systems, water systems, drainage systems, sewer systems, fiber optic distribution systems, waterways.
- Capitalization thresholds
 - \$1,000,000 for major systems
 - \$100,000 for improvements to existing systems
 - *Note: If \$100,000 is spend intermittently during the year to keep the existing system working as intended for the established useful life, then those costs should be considered maintenance expenses and not capitalized as improvements.*
- Infrastructure assets should be recorded with residual value of 10% of historical costs.



Capitalized Collections

- Works of Art and historical treasures which are owned by the institution and :
 - Held for public exhibition, education or research
 - Protected, cared for and preserved
 - If any items of collection are sold, proceeds must be used to acquire other items for collection.
- May be exhaustible or inexhaustible
 - If exhaustible, subject to depreciation
 - If inexhaustible, not subject to depreciation
- Capitalize all items received, unless held for financial gain.
 - If held for financial gain, note disclosures should be made to financial statements to provide reasons for not capitalizing the collection.
 - If collection being held for financial gain was donated, revenues and expenses should be recorded for fair value of collection given.



Library Collections (Books and Materials)

- Library books are literary compositions that are generally bound into separate volumes and copyrighted.
- Library reference materials are information sources, such as journals periodicals, manuscripts, maps, audio/visual media, other learning based documents, etc.
- Per State Accounting Office policy, Library collections (books and reference materials) that exceed \$100,000 in aggregate must be capitalized.
 - Since all of USG institutions have collections that exceed \$100,000, all yearly purchases of books and reference materials must be capitalized.
- Depreciation is on total collection and based on 10 year useful life.



Intangible Assets

- Intangible assets possess the following characteristics:
 - Lacks physical substance
 - Non-financial in nature
 - Useful life extends beyond 1 year.
- Easements, water rights, timber rights, trademarks, computer software.
- May be purchased, licensed or internally generated.
- Capitalization thresholds
 - \$ 1,000,000 for computer software.
 - \$ 100,000 for all other intangible assets.
- Useful lives:
 - Computer Software – 10 years
 - Other Intangible Assets – 20 years
- *Note: State Accounting Office has determined that E-books, software licenses and other electronic reference materials whereby access to databases is obtained through multi-year contracts (or a one time cost for permanently accessible data) should be capitalized as software and not library books or materials.
Software licenses/access rights paid on annual basis with no multi-year commitment of funds are not capital events.*



Leased Assets

- Land, buildings, equipment and/or other assets under capital lease should be capitalized if **any** of the 4 following criteria apply:
 - Lease transfers ownership to institution
 - Lease contains bargain purchase option
 - Lease term exceeds 75% of useful life of asset being leased
 - When dealing with 1 year leases with multiple renewable options, one should use full lease term to apply 75% criteria.
 - Present value of lease payments equal at least 90% of fair value of leased property.
- Under currently existing accounting standards, leases that do not meet any of the 4 criteria will be considered operating leases.



Construction in Progress (CIP)

- Temporary asset account that tracks the accumulation of costs during the construction/renovation period.
- After construction/renovation is complete, costs are transferred to appropriate permanent capital asset account(s).
 - Some CIP costs may not be capitalized. Those will be moved to appropriate expense accounts when construction/renovation is complete.
- Depreciation expense is not charged while asset is held in CIP.



Capital Asset Activities

- Acquisition Costs/Value of Capital Assets
- Sale/Disposition of Capital Assets
- Exchange/Transfer of Capital Assets
- Capital Asset Impairments
- Assets Recorded without Depreciation
- Fully Depreciated Capital Assets
- Reassessing Lives of Capital Assets
- Component Unit Depreciation
- Depreciation Reserves
- Classifying Capital Asset Costs Subsequent to Acquisition



Acquisition Cost/Value of Capital Asset

- How is acquisition cost of capital asset determined?
 - Acquisition Cost(s) commonly include:
 - Vendor's invoice+initial installation costs+modifications and attachments+freight and transportation+site preparation costs+professional fees+applicable taxes (if any).
 - Other costs could be applicable depending on capital asset type.
 - For example, on construction projects capitalized interest accrued during the construction period must also be added to cost value of asset.
 - If Acquisition Costs are not available, costs may be estimated, however, methodology must be logical, supported and well documented.
 - Donations should be recorded at fair value at date of gift.



Sale/Disposal of Capital Assets

- If assets are sold outside of the State of Georgia reporting entity, a gain or loss must be recognized for the difference between the sales price and net book value (cost less accumulated depreciation) of asset.
 - If an asset is otherwise disposed of (theft, loss, etc.), a loss on disposal will be recorded which would be equal to the net book value of the asset removed.
 - If asset is fully depreciated there would be no gain or loss.
 - If asset is fully depreciated with a residual value remaining, the loss would be the amount of the residual value.
- *Note: The Surplus Properties division of the State's Department of Administrative Services provides disposal instructions for State owned assets.*



Exchange/Transfer of Capital Assets

- Exchange is a reciprocal transfer of capital asset(s) between institution and another organization.
 - If exchange is between two organizations in the State reporting entity, both state organizations should record the transfer at the net book value of the assets involved in the transaction.
 - On financial statements, exchange should be recorded as a Special Item Transfer on the *Statement of Revenues, Expenses and Changes in Net Position*.
 - *Note: The Office of Fiscal Affairs should be notified of transfers between State entities, to ensure symmetry of reporting.*
 - If exchange is between institution and organization outside the State reporting entity, the transaction should be recorded based on the value of the asset surrendered.
 - Book value is used for similar assets (those that are the same type and/or perform essentially the same function).
 - Fair value is used for dissimilar assets.



Capital Asset Impairments

- An impairment is a significant and unexpected decline in service utility of a capital asset.
- Impairments must be evaluated to determine if permanent or temporary.
 - If impairment is permanent, asset carrying value must be reduced by the amount of the impairment loss, if loss exceeds \$ 100,000 or if insurance recoveries exceed \$ 100,000.
 - The State Accounting Office (SAO) requires each State entity to report impairments. Therefore, please notify Office of Fiscal Affairs of any potential impairments within 20 days of discovery. Each institution must also report results of impairment testing and any permanent loss/gain associated with recording impairment.

Quiz

If carrying value of asset was \$700,000 at date of impairment and the impairment test revealed a permanent loss in utility of \$ 75,000, should the capital asset be written down by the calculated asset impairment loss? The institution also received \$ 150,000 in insurance recoveries associated with this loss.



Assets Recorded without Depreciation

➤ Assets Held In Trust

- Assets held on behalf of non-state entity (such as family art collections or federal government assets loaned to institution) that are in temporary control of institution should be accounted for on institution's accounting records, but they should be recorded at 0.00 value, not subject to depreciation.

➤ Controlled Assets

- Assets owned by the institution that must be secured and tracked (usually for insurance purposes). This includes:
 - Moveable personal property items with acquisition costs of \$3,000 or more
 - All weapons and firearms, regardless of value
 - Any other asset items that management may determine high risk and necessary to be tracked.



Fully Depreciated Capital Assets

- Should fully depreciated capital assets that are still in service be recapitalized or removed from accounting records?

No and No

- So, what do we do?



Fully Depreciated Capital Assets

- Can't really recapitalize because original cost of a capital asset cannot change.
 - Depreciation period can be changed, but if asset is already fully depreciated, that could cause issues.
 - Changing depreciation period would result in restatement for a "correction of a prior period error" which would result in audit issues.
- Also, can't remove from asset management system if still in use.
- So, what do we do?
 - Nothing if fully depreciated.
 - GASB allows that Capital assets that are fully depreciated, but not disposed of "should continue to be reported by the government". The only value reported would be residual value.
 - If not fully depreciated, institution should review asset lives and extend lives when appropriate.
 - It is recommended that institutions review asset lives periodically, at least by the time assets reach 50% of depreciable life.
 - How should the change in asset lives be handled in Asset Management Module?



Reassessing life of Capital Assets

➤ Example

- \$5,000,000 classroom building has 40 year life and has been in service for 30 years. Institution plans to keep the building in service for an additional 10 years, thus remaining useful life is 20 years. Depreciation is straight line. Depreciation expense for 30 years was \$112,500 per year totaling \$3,375,000. Salvage value calculated at 10% or \$500,000.

The accounting would be as follows:

Asset value	5,000,000
Less salvage value	500,000
Less Accumulated Dep	<u>3,375,000</u>
Revised depreciable value	1,125,000

Revised Depreciation expense $1,125,000/20 = 56,250$ per year for revised life of asset

- Since this is done prospectively per GASB 62 as a Change in Accounting Estimate, Accumulated Depreciation is not affected and the asset is not restated.



Component Unit Depreciation

➤ New Section in BPM

- When using component unit basis approach, depreciation should be based on useful life of each component
- Intention is to provide more accurate basis for measuring annual depreciation for multi functional buildings, such as Research Buildings.
- Generally components are broken down into 4 general categories:
 - Building shell
 - Building finished
 - Building Service System(s)
 - Fixed Equipment
- Useful lives are by category. Individual Components may not have useful lives which exceed useful life of primary structure (shell).



Depreciation Reserves

- Board policy requires that institutions must establish a Renewals and Replacements (R&R) reserve for all university owned auxiliary projects.
- Each year an amount equal to depreciation expense for the related capital asset must be added to the R&R reserve.
 - Why do we do this?
- For Public Private Venture Projects (PPV), no reserve is required.
 - Why?
 - *Note: When major repairs and replacements are made to these properties, the R&R reserve should be reduced by the amount used in any given year.*



Capital Asset Costs Subsequent to Acquisition

- **Generally 4 types of costs incurred for capital assets subsequent to original acquisition.**
 - Additions
 - Improvements
 - Replacements
 - Repairs and Maintenance
- Should these costs be capitalized or expensed?



Additions and Improvements

➤ Additions

- Essentially creating a new asset, such as a wing to a building.
- Should be capitalized if cost meets or exceeds capitalization threshold.

➤ Improvements

- Sometimes described as betterments. Improves quality, future service potential and/or extends life of an existing asset.
- Generally should be capitalized if improvements meet capitalization threshold or increases asset value by at least 25% of the original cost of the asset or increases useful life of asset by 25%.
 - Examples
 - Upgrading heating and cooling systems
 - Structural improvements to floors, walls, etc. Installing a reinforced concrete floor for original wooden floor.

- *Note: If an improvement extends the useful life of the asset by at least 25%, the Parent's useful life should also be modified by the increase in useful life.*



Replacements

- Replacements allow the asset to maintain existing level of service.
 - Generally would not be capitalized if replacement does not increase future service level or the value of the asset.
 - Examples
 - Replacing carpet.
 - Replacing old boiler with new boiler with similar performance capabilities

In the example above, if the boiler was replaced with a new boiler that increased future service capacity/potential of asset, would you capitalize the new boiler?



Repairs and Maintenance

- Expenditures designed to maintain assets in good operating condition. Generally periodic repairs and preventive maintenance to maintain normal operating utility of an asset.
- Expenditures of this nature would not be capitalized and would be expensed as incurred.
 - Examples
 - Plumbing and electrical repairs
 - Repainting and other maintenance type expenses



Capitalized Cost or Operating Expense

➤ Example 1

- Institution has a academic building with a shingle roof that has damage. It was decided that it would be more cost effective to replace entire roof rather than repairing existing roof. Roof was replaced with another similar type shingle roof costing \$750,000.
 - Should this cost be capitalized or expensed?
 - Why?



Capitalized Cost or Operating Expense

➤ Example 2

- Institution has a academic building that needs new heating and cooling system installed. Existing system is 20 years old. New system is technologically superior to old system. New system will cost \$ 500,000?
 - Should this cost be capitalized or expensed?
 - Why?



Capitalization vs Repairs and Maintenance

➤ **Example 3**

- Institution has a storage building that was originally capitalized at a cost of \$125,000 with a depreciable life of 25 years. Building was structurally reinforced with steel beams at a cost of \$ 50,000, increasing the useful life by 7 years.
 - Should this cost be capitalized or expensed?
 - Why?



Extending Useful Life in PeopleSoft Financials

- Useful Life Extensions are done by performing a Book Adjustment (Business Process AM.020.060)
- Calculation Type
 - Life to Date
 - Recalculates the depreciation from the inception of the asset's useful life
 - Remaining Value
 - Calculates the remaining depreciation over the remainder of the asset's useful life



Adding Cost in PeopleSoft using Cost Adjustment

- Cost Adjustments add value to an existing asset id (Business Process AM.020.054)
- The Transaction Date drives the date that the adjustment begins depreciating.
 - If a current transaction date is used, the adjustment will begin depreciating from that date forward over the remaining life of the asset.



Adding Costs in PeopleSoft using Child Assets

- Child Assets can be used to link asset costs to a Parent asset (Business Process AM.020.040)
- Useful Life of Child Asset
 - The Child Asset is separate so it has its own profile id which determines its useful life.
 - However, you can choose to use the Parent's useful life



Questions and Useful Links

Business Procedures Manual:

http://www.usg.edu/business_procedures_manual/

GaFirst Business Processes:

http://www.usg.edu/gafirst-fin/documentation/category/asset_management

