

Physical Facilities Inventory System - Capitalization Policy

A. General-Capitalization Policy

The Physical Facilities Inventory System is the process by which the University of Kentucky and its affiliated corporations (hereinafter referred to as the University) records, controls and accounts for the capital assets and space utilization of the University.

Capital assets are recorded and reported in the following categories:

1. Space Section
 - a. Buildings
 - b. Fixed equipment
 - c. Land
 - d. Land improvements
 - e. Infrastructure
2. Equipment Section
 - a. Movable equipment
 - b. Library books and reference materials
 - c. Works of art and historical treasures
 - d. Computer software

B. Responsibilities of the Office of the Treasurer

1. Maintain an inventory of physical facilities and real property;
2. Collect annual verification of space assignments, room uses, and other applicable data from the departments to keep the physical facilities inventory current;
3. Provide the Office of Planning, Budget & Policy Analysis with updated building and room inventory files upon request.
4. Coordinate the archival of files with the Computing Center as necessary to maintain historical data.

C. Definitions

1. Capital asset - any physical resource that benefits a University program for more than one year.
2. Capitalization - recording in the financial records the cost or value of a capital asset belonging to the University, regardless of the source of funds used in acquisition of the property.

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3. Recording - the steps necessary to report, list and control a capital asset within the Physical Facilities Inventory System.
4. Control - protecting and safeguarding a capital asset while under the supervision or in the possession of a department, whether or not it is recorded in the Physical Facilities Inventory System.
5. Buildings - roofed-structures for permanent or temporary shelter of persons, animals, plants or equipment. Cost to be included are foundations, walls, frame, roof, etc.
6. Fixed equipment - service equipment permanently attached to a structure. Costs included are electrical lighting and power fixtures, elevators, heating and ventilation, air conditioning, sprinkling and fire protection systems, casework, etc. Communications and network equipment are considered to be a special category of fixed equipment. Equipment purchased to replace existing fixed equipment will not be capitalized.
7. Infrastructure assets - 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. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems and dams. Infrastructure assets do not include buildings, driveways, parking lots or any other items that are incidental to the property or access to the property.
8. Land improvements - enhancements to land other than buildings. Costs included are fencing, paving, roadways, walks, parking facilities, retaining walls, shrubs, underground sewers, water lines, yard lighting, etc.

Land improvements are further categorized as inexhaustible and exhaustible, as follows:

Inexhaustible. Expenditures for land improvements that do not require maintenance or replacement; expenditures to bring land into condition to commence erection of structures; expenditures that do not deteriorate with use or the passage of time.

Exhaustible. Other land improvements that are part of a site, but which require maintenance or replacement, such as parking lots, landscaping and fencing.

9. Betterments and improvements - any of a variety of changes to a capital asset that increases its expected life or enhances its performance beyond its original capabilities. These measures include additions, renovations and alterations. Examples: Building enlargements, installation of air conditioning in a building that was not air conditioned, partitioning of a classroom into offices, expansion of a paved parking lot, improved lighting, addition of a hoist or crane to a vehicle or a

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zoom lens to a camera.

10. Repairs - restoration of a capital asset, which has deteriorated, to its original condition (excluding normal wear and tear). Examples: replacing a roof, tuckpointing a building, replacing a water fountain or HVAC system, replacing worn parts on a piece of equipment.
11. Maintenance - the recurrent, day-to-day work required to preserve a capital asset in its original condition (excluding normal deterioration) without materially increasing its usefulness or life. Costs include cleaning, lubrication, parts, material and labor. Such costs are charged to current expenses.
12. Equipment - movable property having a useful life of two (2) years or longer, and which retains its identity as a separate and identifiable item. An item loses specific identity when attached to another item as a component part or when attached as a permanent part of a building.
 - a. For purposes of this manual, the term movable equipment will include equipment, furniture, furnishings, fixtures, machinery, instruments, and vehicles.
 - b. Lease purchase equipment - equipment purchased under lease purchase contracts or agreements.
13. Library books - generally literary compositions bound into separate volumes and identifiable as separate copyrighted units.
14. Reference materials - information sources, other than books, which include journals, periodicals, microforms, 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.
15. Works of art and historical treasures - Examples of works of art and historical treasures includes collections of rare books and manuscripts; maps, documents and recordings; works of art such as paintings, sculptures and designs; artifacts, memorabilia, exhibits; unique and significant structures.

Works of art and historical treasures are further categorized as inexhaustible and exhaustible, as follows:

Inexhaustible. Collections and individual items of significance, which are not held for financial gain, but rather are held for public exhibition, education or research in furtherance of public service. The period of economic benefit or service potential for inexhaustible works of art and historical treasures is extraordinarily long due to

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efforts of the University to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic or historical value.

Exhaustible. Collections and individual items of significance whose useful lives diminish by display or educational or research applications.

D. Capitalization Policy

1. Land will be capitalized in the University's financial records at cost. Gifts will be capitalized at fair market value at the time of donation.
2. Buildings, building improvements, fixed equipment (other than communications and network equipment), infrastructure assets and land improvements of \$100,000 or more, whether constructed or purchased, will be capitalized in the University's financial records at cost. Gifts of \$100,000 or more will be capitalized at fair market value at the time of donation.
3. Telecommunications equipment acquired and installed by the University's Communications and Network Services service center at a cost of \$5,000 or more will be capitalized in the University's financial records and must be charged to GL accounts 550960 and 550970.
4. Repairs and maintenance will not be capitalized and may be done as job order work charging a departmental cost center on the appropriate GL account (533010 through 533060.)
5. All nonexpendable movable equipment costing \$2,000 or more (\$1,000 for computers) will be capitalized and recorded in the Physical Facilities Inventory System. Capital assets are recorded at historical cost.

Note: All equipment shall be tagged with a UK property tag. Equipment acquired with federal funds must be tagged with an additional PURCHASED WITH FEDERAL FUNDS equipment tag available from Plant Assets.

- a. Equipment purchased from vendors or fabricated within the University of Kentucky shops, will be capitalized in the University's financial records at cost.
- b. Equipment received as a gift will be capitalized in the University's financial records at the fair market value on date of gift.
- c. Expenses incurred for additions, improvements or betterment to movable equipment will be capitalized in the University's financial records at cost.
- d. Items of equipment meeting all the criteria for equipment but costing less than the capitalization policy amounts described above are controlled by the

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department and not counted in the University's capital inventory. However, departments are encouraged to track noncapital equipment through eBARS as follows:

- 1) At the request of the department, Plant Assets will issue non-capital tags for departmental use. The department will enter the equipment data directly into eBARS as non-capital equipment. These items can then be scanned for departmental inventories.
- 2) Directions for entering non-capital equipment in eBARS can be found at <http://www.uky.edu/EVPFA/Controller/files/plant/noncapital.pdf>

e. Leased equipment must be capitalized if the lease arrangements meet any one of the requirements of Statement of Financial Accounting Standards No. 13, 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.

f. Installation costs and original incoming transportation (freight charges) must be included in the cost of the equipment.

g. Maintenance or repair costs to equipment will not be capitalized and must not be charged to a capital outlay GL account.

6. Capital equipment purchases are required to use capital outlay GL accounts. Refer to section E-12-3.

7. Library books, reference materials, works of art and historical treasures will be capitalized in the University's financial records at cost. Gifts will be capitalized at fair market value at the time of donation.

8. The costs of computer software developed or obtained for internal use must be capitalized. The University of Kentucky limits the capitalization of computer software to institutionally significant systems. Accordingly, computer software developed or obtained for internal use with a cost of \$400,000 or more must be capitalized.

Capitalizable Costs

For software to be considered developed or obtained for internal use, both of the following tests must be met:

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- a. The software must be acquired, internally developed or modified solely to meet the University's needs and
- b. During the software's development or modification, the University must not have a substantive plan to market the software externally to other organizations.

Software development generally involves three phases, as follows:

- a. Preliminary project phase. Conceptual formulation of alternatives, the evaluation of alternatives, determination of existence of needed technologies and final selection of product.
- b. Application development stage. Design of chosen alternative, including software configuration and interfaces, coding, installation of computer hardware and testing, including parallel processing phase.
- c. Post-implementation/operation phase. Training and application maintenance activities.

Costs associated with the preliminary project and post-implementation/operation phases are expensed as incurred. Costs (internal and external) associated with the application development stage are capitalized.

Capitalization of costs begins when the preliminary phase is complete and the University's management has implicitly or explicitly committed to funding a software project with the intent it will be completed to perform the planned functions.

Capitalization ceases no later than the time at which substantial testing is complete and the software is ready for its intended purpose or placed into service.

Examples of expenditures that are capitalized during the application development stage include:

- 1) External costs
 - External direct costs of materials and services (third party fees)
 - Costs to obtain software from third parties
- 2) Internal Costs
 - Travel costs incurred by employees in their duties associated with development
 - Payroll and payroll-related costs of employees directly assigned to coding, installing or testing.

General and administrative costs, including training costs, are not capitalized.

Capitalization of computer software includes computer license fees if an individual license fee (determined as the total dollar amount of the fee paid divided by the number of units served/terminals) meets the capitalization dollar threshold.

Establishing an Account to Track Costs of Computer Software Projects

The University has established a minimum investment of \$400,000 for capitalization of individual software projects. If it is anticipated that a computer software project will equal or exceed this amount, a WBS element must be established to track these costs. If it is anticipated that the capitalizable costs will be below \$400,000, costs are expensed as incurred.

Costs of computer software projects must be captured in a specific WBS element established for this purpose. Capital software projects must be defined and the WBS element and related budget authority must be established prior to the start of the project. Then, all external and internal costs must be charged to this WBS element as incurred.

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Capital assets are depreciated over the following estimated useful lives:

Capital Asset Category	Depreciation Method	Useful Life
Land	Not depreciated	Unlimited
Land improvements – inexhaustible	Not depreciated	Unlimited
Land improvements – exhaustible	Straight line	10 years
Buildings and fixed equipment	Straight line	40 years
Building improvements	Straight line	20 years
Infrastructure assets	Straight line	25 years
Communications and network equipment	Straight line	5 – 15 years
Equipment and machinery, including vehicles	Straight line	5 – 20 years
Leased equipment	Straight line	Estimated useful life or lease period, whichever is shorter
Computer software	Straight line	10 years
Library books and reference materials	Straight line	10 years
Library books – special collections	Not depreciated	Not applicable
Works of art and historical treasures - inexhaustible	Not depreciated	Not applicable
Works of art and historical treasures – exhaustible	Straight line	10 years
Construction in progress	Not depreciated	Not applicable