

University of Kentucky Capital Asset Policies

I. Capital Assets

Capital assets are real or personal property that have (a) an estimated useful life of more than one year and (b) a value greater than the capitalization threshold for the particular classification of asset, as approved by the Board of Trustees (June 19, 2001) and as defined in section III below. Capital assets include assets purchased, constructed or donated that meet the requirements of (a) and (b) above.

Capital assets classifications (categories) include:

- A. Land
- B. Land improvements
- C. Buildings
- D. Building improvements
- E. Infrastructure
- F. Communications and Network Equipment
- G. Equipment and machinery, including telecommunication equipment and vehicles
- H. Leased equipment
- I. Construction in Progress
- J. Computer software
- K. Library books and reference materials
- L. Works of art and historical treasures

II. Capital Asset Categories

A. Land

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 is characterized as having an unlimited life.

The University, from time to time, will purchase buildings within its designated land use acquisition area. These buildings are acquired primarily to gain ownership of the underlying land. Accordingly, buildings being purchased in the University's designated land use acquisition area for future development should be classified as land. Costs for appraisals, demolitions, etc., should be included in the capitalized cost. Note: If it is intended that the University will use a structure

on the acquired land for a period of time exceeding one year, an allocation of cost should be made to the structure and capitalized separately. Costs capitalized to the structure should include any renovation costs that make the building suitable for University use.

B. Land improvements

Land improvements consist of betterments, site preparation and site improvements, other than buildings, that ready the land for its intended use. Included in land improvements are items such as excavation, non-infrastructure utility installation, driveways, sidewalks, parking lots, flagpoles, retaining walls, fencing and outdoor lighting.

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.

C. Buildings, including fixed equipment

A building is a structure permanently attached to the land that is not intended to be transportable or movable. Building costs include foundations, walls, frames, roof, etc. Fixed equipment, including items such as elevators, HVAC units, fume hoods, sprinklers, and casework, are to be included in building costs.

Note: The cost of each major building project usually includes several components such as land, land improvements, building construction, equipment, etc. The total cost of each major building project needs to be allocated to each separately identified component of the project and accounted for in the appropriate capital asset category.

D. Building Improvements

Building improvements are capital expenditures that materially extend the useful life of a building or increase the value of the building, or both. A building improvement should be capitalized as a betterment and recorded as an addition to

the value of the existing building if the expenditure meets the capitalization threshold.

Examples of building improvements include additions, major energy conservation projects, installation of fixed equipment such as elevators, switches, sprinklers or fume hoods in a building that previously did not contain that equipment, and major renovation of space to change or improve functionality.

E. Infrastructure

Infrastructure assets are 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 the property.

F. Communications and Network Equipment

Telecommunications equipment acquired and installed by the University's Communications and Network Services service center and charged to object codes 659060 and 659070. Communications and network equipment are considered to be a special category of fixed equipment, normally capitalized as part of the building.

G. Equipment and Machinery, including Vehicles

Personal property assets include furniture, machinery, equipment and vehicles. Fixed equipment is included in buildings and/or communications and network equipment, as noted above.

H. Leased Equipment

Equipment should 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.

Leases that do not meet any of the above requirements should be recorded as operating leases.

I. Construction in Progress

Construction in progress reflects the ongoing construction activity of buildings and other structures, infrastructure, additions, and land improvements which are substantially incomplete but which are anticipated to be capitalized upon completion.

Construction in progress assets should be capitalized to the appropriate capital asset category upon completion.

Construction in process is capitalized but is not depreciated.

J. Computer Software

Colleges and universities must capitalize the costs of computer software developed or obtained for internal use.

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

- The software must be acquired, internally developed, or modified solely to meet the university's needs and
- 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:

- Preliminary project phase. Conceptual formulation of alternatives, the evaluation of alternatives, determination of existence of needed technologies and final selection of alternatives is made.
- Application development stage. Design of chosen alternative, including software configuration and interfaces, coding, installation of computer hardware and testing, including parallel processing phase.

- Post-implementation/operation phase. Training and application maintenance activities.

Costs (internal and external) associated with the application development stage should be capitalized. Capitalization of costs should begin 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 should cease no later than the time at which substantial testing is complete and the software is ready for its intended purpose or rendered in service (prior to the post-implementation/operation phase).

K. Library Books and Reference Materials

A library book is generally a literary composition bound into a separate volume and identifiable as a separate copyrighted unit.

Library reference materials are 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.

L. Works of Art and Historical Treasures

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.

Collections and individual items are protected and cared for or preserved and subject to an organizational policy that requires the proceeds from sales to be used to acquire other items for the collection.

Examples of works of art and historical treasures included 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.

The period of economic benefit or service potential for inexhaustible works of art and historical treasures is extraordinarily long due to 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.

III. Capitalization Thresholds

Estimated Useful Life. All capital items must have an estimated useful life of greater than one year. Assets that are consumed, used-up or worn-out in one year or less should not be capitalized.

Asset Cost. Capital expenditures are recorded as a capital asset if, in addition to having an estimated useful life of greater than one year, they meet the following asset cost thresholds:

Capital Asset Category	Capitalization Levels
Land	Capitalize all
Land improvements – inexhaustible	\$100,000
Land improvements – exhaustible	\$100,000
Buildings and fixed equipment	\$100,000
Building improvements	\$100,000
Infrastructure assets	\$100,000
Communications and network equipment	\$5,000
Equipment and machinery, including vehicles	\$2,000 (\$1,000 for computers)
Leased equipment	\$2,000 (\$1,000 for computers)
Computer software	\$400,000
Library books and reference materials	Capitalize all
Works of art and historical treasures – inexhaustible	Capitalize all
Works of art and historical treasures – exhaustible	Capitalize all

IV. Amounts to Be Capitalized

Capital assets should be recorded at historical cost. Amounts to be capitalized include the following:

- I. Purchased assets
 - a. The vendor’s invoice price for the item, less any discounts
 - b. Original incoming transportation (freight) charges incurred on shipments from external suppliers

- c. The cost of assembly and installation of the capitalized item
- d. Architect and engineering fees
- e. Site preparation, including demolition of existing buildings

III. Donated assets

- a. The fair market value of the item on the date of donation.

V. Non-capital Expenditures

Generally, expenditures which (a) do not meet the capitalization thresholds denoted above and/or (b) which do not extend the original life or significantly enhance the net value of the asset are not considered to be capital items, and accordingly, should be expensed in the period incurred. Some examples of items normally not capitalized are as follows:

- 1) Expenditures for repairs, maintenance or replacement of component parts, including fixed equipment, that do not extend the original life or significantly enhance the net value of the asset. Maintenance costs allow an asset to continue to be used during its originally established useful life.
- 2) Expenditures incurred in demolishing or dismantling equipment, including those related to the replacement of units or systems.
- 3) Expenditures incurred in connection with the rearrangement, transfer or moving of capital items from one University location to another, including expenditures in dismantling, transporting, reassembling and reinstalling such items in the new location.
- 4) Expenditures to add, remove and/or move walls relating to renovation project that are not considered to be major rehabilitation projects.
- 5) Interior decorations, such as draperies, blinds, and wallpaper.
- 6) Maintenance type interior renovations such as repainting, touch up plastering, replacement of carpet, tile or panel sections.

VI. Depreciation

Depreciation is the process of allocating the cost of a capital asset over the period of time benefited by the use of that asset, rather than deducting the cost of the asset as an expense in the year of acquisition.

A capital asset is depreciated over its estimated useful life, which is meant to be an indication of the number of years that an asset will be used for the purpose for which it was purchased.

Capital assets that are inexhaustible (land, land improvements, works of art, Library Special Collections) should not be depreciated.

Capital assets should be 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