

## **Fixed Assets and Sensitive Minor Equipment**

**Issued:** March 25, 2017

### **POLICIES**

**Responsible Official:** Vice President for Finance and Administration

**Responsible Office:** Business Office

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#### **Policy Statement**

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It is the policy of Austin Peay State University to have an effective and accurate process for tracking fixed assets from acquisition to disposal and to properly account for fixed assets in the books and records of the University in compliance with applicable laws and regulations.

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#### **Purpose**

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The purpose of this policy is to outline significant provisions for consistent capitalization procedures for fixed assets at the University.

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#### **Procedures**

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##### **Introduction**

- A. This policy largely represents a consolidation of the existing practices and are intended to serve as a reference document for university staff responsible for fixed asset administration.
  - 1. The policy includes provisions for capitalizing land, land improvements, leasehold improvements, buildings, additions and improvements to buildings, infrastructure, nonexpendable personal property, software, and livestock.
    - a. Additionally, the policy also includes provisions for the inventory of sensitive items.
  
- B. Property records should be maintained for all land and capitalized assets.
  - 1. Procedures should ensure the proper recordkeeping of capitalized assets, including the initial recording, movement and eventual disposal of assets and should ensure that these assets are periodically inventoried.

2. Property records for assets acquired with federal funds should conform to OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations.

## **Land**

- A. Land is generally considered to have an unlimited life and is therefore a non-depreciable asset. Land acquired by the university should be recorded at its original cost which includes a variety of expenditures related to its acquisition and its preparation for use as intended by the university.
- B. The following are examples of expenditures that should be capitalized as a part of the cost of land:
  1. The original acquisition price.
  2. Commissions related to the acquisition.
  3. Legal fees related to the acquisition.
  4. Cost of surveys.
  5. Cost of an option to buy the acquired land.
  6. Cost of removing unwanted buildings from the land, less any proceeds from salvage.
  7. Unpaid taxes (to the date of acquisition) assumed by the university.
  8. Cost of permanent improvements (e.g. landscaping) and improvements that will later be maintained and replaced by other governments (e.g. street lights, sewers).
  9. Cost of getting the land in condition for its intended use, such as excavation, grading, filing, draining, and clearing.
- C. Land acquired through forfeiture should be capitalized at the total amount of all taxes, liens, and other claims surrendered, plus all other costs incidental to acquiring ownership and perfecting title.
  1. Assumption of liens, mortgages, or encumbrances on the property increases the purchase price and should be included in the original cost.
  2. A liability should be recognized for the amount of the lien, mortgage, or encumbrance assumed by the university.
- D. Land acquired by donation, or the intent to donate, e.g., for one dollar, should be recorded on the basis of an appraisal of the market value at the date of acquisition.
  1. The cost of the appraisal itself, however, is expensed at the time incurred.

2. When costs are incurred but the land is not acquired, the costs should be expensed.

E. Land held for investment purposes should be classified as investments rather than as property.

### **Land Improvements**

A. Expenditures for land improvements that have limited lives and exceed \$50,000 should be capitalized in a separate account from the Land and depreciated over their estimated useful lives.

1. Examples of land improvements include, but are not limited to, site improvements such as landscaping that has a limited life (e.g. shrubbery, flowers, trees); retaining walls, parking lots, fencing, sidewalks, sculptures, and art work.

2. Land improvements are normally depreciated over a useful life of 20 years.

B. As assets near the end of their estimated lives, the estimates should be reviewed for accuracy of the original estimate and adjusted to reflect the anticipated number of years of continued use.

1. Any adjustment of estimated lives is a change in accounting estimate and should be applied to current and future depreciation calculations.

### **Leasehold Improvements**

A. Leasehold improvements include improvements to existing or new leased spaces. These improvements should be capitalized if the cost exceeds \$50,000 and the cost is borne by the university.

B. Leasehold improvements are generally depreciated over the lesser of the original term of the lease or the useful life of the improvements.

C. If the lease contains an option to renew for additional years but renewal is uncertain or the likelihood of renewal is uncertain, the improvements should be depreciated over the original term of the lease or the useful life of the improvement.

### **Buildings**

A. The cost of a building includes all necessary expenditures to acquire or construct and prepare the building for its intended use.

1. Buildings consist of relatively permanent structures, including all permanently attached fixtures, machinery and other appurtenance that cannot be removed without damaging the building or the item itself.
- B. Buildings are erected for the purpose of sheltering persons or property. Examples include, but are not limited to such items as academic buildings, dormitories, apartments, barns, etc.
1. All buildings costing \$100,000 and above should be capitalized.
  2. Buildings costing less than \$100,000 should be expensed.
  3. Buildings are normally depreciated over a useful life of 60 years.
- C. Buildings acquired by purchase should be capitalized at their original cost. The following major expenditures are capitalized as part of the cost of buildings:
1. The original bargained purchase price of the building.
  2. Cost of renovation necessary to prepare the building for its intended use.
  3. Cost of building permits related to renovation.
  4. Unpaid taxes (to date of acquisition) assumed by the university.
  5. Legal and closing fees.
- D. Buildings acquired by construction should be capitalized at their original cost. The following major expenditures are capitalized as part of the cost of buildings:
1. Cost of constructing new buildings, including material, labor, and overhead.
  2. Cost of excavating land in preparation for construction.
  3. Cost of plans, blueprints, specifications, and estimates related to construction.
  4. Cost of building permits.
  5. Architectural and engineering fees.
  6. Landscaping and other improvements related to the building construction that cannot be separately identified from the building project (e.g. wiring within the building, shrubbery and sidewalks around the building).
- E. Buildings acquired by donation, or the intent to donate, e.g. for one dollar, should be recorded on the basis of an appraisal of the market value at the date of acquisition.
1. The cost of the appraisal itself, however, should not be capitalized.

2. Removable fixtures, including but not limited to furnishing for the new building, should be distinguished from the cost of the building and capitalized or expensed in the appropriate accounts even if they are acquired as a part of the purchase or the construction project.
- F. The cost of a building that is acquired but immediately removed to prepare the land for construction of a new building is treated as part of the cost of the land rather than as part of the cost of the new building.
- G. The cost of removing an old building that you have occupied in the past but that is now deteriorated and must be removed prior to constructing a new building, should be capitalized as a part of the cost of the new building.
1. The precedent supporting this treatment is the requirement to capitalize all normal costs of readying an asset for use, i.e., capitalizing demolition costs of unwanted building(s) with the purchase of land, capitalizing renovation costs when a building is purchased, capitalizing excavating costs in preparation for construction of a new building and, when a building is constructed with plans to expand later any demolition costs are capitalized with the cost of the addition.
- H. As assets near the end of their estimated lives, the estimates should be reviewed for accuracy of the original estimate and adjusted to reflect the anticipated number of years of continued use. Any adjustment of estimated lives is a change in accounting estimate and should be applied to current and future depreciation calculations.

**Additions and  
Improvements to Buildings**

- A. Additions
1. Additions represent major expenditures that are capital in nature because they increase the service potential of the related building.
  2. Additions costing \$50,000 or above should be capitalized.
  3. Additions costing less than \$50,000 should be treated as repairs and maintenance even though they have the characteristics of capitalized expenditures. Example:
    - a. A new wing is added to an existing building at a cost of \$700,000. The cost would be capitalized.
    - b. A new wing is added to an existing building at a cost of \$49,999. The cost would be expensed since it does

not meet the dollar level established for capitalization.

4. Two major issues are involved with accounting for additions and generally require some professional judgment:
  - a. Useful life: If the estimated useful life of the addition is independent of the building to which it relates, the addition is treated as a separate asset and depreciated over its estimated useful life, regardless of the life of the original asset. If the addition is not independent of the original asset, the useful life must be determined in relation to the original building. In this case, the cost of the addition is depreciated over the shorter of the estimated life of the addition or the remaining life of the original building.
  - b. Capitalized costs: If the original building was constructed with a plan to expand, cost related to the original building incurred when the addition takes places should be capitalized. However, costs that could have been avoided with appropriate planning at an earlier date should be expensed rather than capitalized.

#### B. Improvements

1. Improvements represent the substitution of a new part of an asset for an existing part.
  - a. For example, the roof of a building may be replaced or a new HVAC may replace an old HVAC system.
  - b. If the new part of the asset is similar in nature to the part being eliminated, the substitution is called a replacement.
  - c. If the new part represents an improvement in quality over the part being eliminated, the substitution is called betterment.
2. Both replacements and betterments are subject to capitalization if the cost is \$50,000 or more.
  - a. The appropriate accounting treatment is determined by whether the original part of the existing asset is separately identifiable.
  - b. If separate identification is possible, the new expenditure should be substituted for the portion of the book value being replaced or improved.
    1. Example: Roof replacement at cost of \$50,000 (original cost separately identified is \$30,000).
 

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|----------------------------|----------|
| 1. Building (new roof)     | \$50,000 |
| 2. Accumulated Depreciated | 27,000   |

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| 3. Loss on replacement of roof | 3,000    |
| 4. Building (old roof)         | \$30,000 |
| 5. Cash                        | 50,000   |
- c. The separately identified asset is depreciated over the shorter of the expected life of the separate asset or the remaining life of the building.
- d. If separate identification is not possible, the cost of replacements and betterments is treated as an increase in the book value of the Building, thereby increasing the basis for depreciation over the remaining life of the Building.
- e. If the replacement or betterment is designed primarily to enhance the quality of the service potential of the building, the cost is charged to the Building asset account.
- f. An appropriate increase in depreciation expense is recognized in future years but the useful life is not increased. Example:
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|-------------|----------|
| 1. Building | \$70,000 |
| 2. Cash     | \$70,000 |
- g. If the replacement is designed primarily to extend the length of the service life of the asset, the book value is increased by debiting Accumulated Depreciation. The revised book value is then depreciated over the revised useful life. Example:
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|--|----------|
| 1. Accumulated Depreciation – Building | \$70,000 |
| 2. Cash                                | \$70,000 |
3. Note:
1. Alterations that modernize rather than improve the quality of a building should be expensed unless the alteration is so extensive as to increase the estimated life of the building.
  2. Re-roofing costs that are not replacing a separately identified asset should not be capitalized unless they are part of a major renovation of a building.
- h. Examples:
1. An old gymnasium is converted to a block of individual rooms at a cost of \$500,000. This is considered a major renovation and would be a building capitalization. This renovation enhances the service quality of the building but does not extend the life of the building.
    1. Debit: Building \$500,000
    2. Credit: Cash \$500,000

2. A deteriorating roof on an existing building (the original roof costs are not separately identified) is replaced at a cost of \$55,000. These costs should be expensed in the year(s) costs are incurred.
  1. Debit: Maintenance of buildings \$55,000
  2. Credit: Cash \$55,000
3. A dormitory is completely renovated at a cost of \$1,000,000 including a new roof. It is estimated that the renovation will add an additional 10 years to the life of the building. The entire project costs would be capitalized under buildings.
  1. Debit: Accumulated depreciation \$1,000,000
  2. Credit: Cash \$1,000,000
  3. Note: The life of the building should be changed to reflect the additional 10-years of service. The debit to accumulated depreciation is the accumulated depreciation on the original building.
4. A parking lot is repaved at a cost of \$20,000 in order to restore to its original condition. This would be considered maintenance and would not be capitalized.
  1. Debit: Paving expense \$20,000
  2. Credit: Cash \$20,000
3. As assets near the end of their estimated lives, the estimates should be reviewed for accuracy of the original estimate and adjusted to reflect the anticipated number of years of continued use.
  - a. Any adjustment of estimated lives is a change in accounting estimate and should be applied to current and future depreciation calculations.

## Infrastructure

- A. Infrastructure is defined as improvements related to the skeletal structure and function of the campus.
  1. Examples include, but are not limited to, roads, steam lines, chiller systems, storm sewers, tennis courts, sewer lines, severe weather systems, athletic scoreboards, turf, lighting, radio and television towers, water lines, signage, all-weather track, telecommunications and computing wiring, and energy management systems.
- B. Improvements valued at or above \$50,000 should be capitalized.

- C. Improvements valued at less than \$50,000 should be expensed.
- D. The same accounting rules that apply to improvements to buildings also apply to improvements to infrastructure. Infrastructure items are normally depreciated over a useful life of 20 years.
- E. As assets near the end of their estimated lives, the estimates should be reviewed for accuracy of the original estimate and adjusted to reflect the anticipated number of years of continued use.
  - 1. Any adjustment of estimated lives is a change in accounting estimate and should be applied to current and future depreciation calculations.

### **Nonexpendable Personal Property**

- A. Examples of nonexpendable personal property include machinery, implements, tools, furniture, vehicles and other apparatus with a unit cost of \$5,000 or more and a minimum life expectancy in excess of one year.
- B. The following list includes some of the costs that should be capitalized in the appropriate asset account:
  - 1. The original bargained acquisition price.
  - 2. Freight, insurance, handling, storage, and other costs related to acquiring the asset.
  - 3. Cost of installation, including site preparation, assembling, and installing.
  - 4. Cost of trial runs and other tests required before the asset can be put into full operation.
  - 5. Cost of reconditioning equipment acquired in a used state.
- C. Nonexpendable personal property acquired by donation, or the intent of donation, e.g. acquisition for one dollar, should be recorded on the basis of an appraisal of the market value at the date of acquisition.
  - 1. Furniture – Movable furniture that is not a structural component of a building. Examples include, but are not limited to, desk, tables, filing cabinets, and safes. Office furniture purchased in components should be capitalized only if the individual components that cannot be separated cost at least \$5,000. Furniture is normally depreciated over a useful life of 20 years.
  - 2. Office and operational equipment – Office and operational equipment other than computers and

- peripherals. Examples include, but are not limited to, copiers, sorters, folders, filing system, printing press, shop equipment, athletic equipment, kitchen equipment, generators, and yard equipment. Office and operational equipment are normally depreciated over a useful life of 10 years.
3. Computers and peripheral – Computers and peripheral equipment are normally depreciated over a useful life of 5 years.
  4. Educational and scientific equipment – Classroom or laboratory equipment used to conduct the normal program of education and research activity. Examples include, but are not limited to, audiovisual equipment, classroom demonstration models, electronic instruments, lab equipment, surveying equipment, radio equipment, pianos, and other musical instruments. Educational and scientific equipment are normally depreciated over a useful life of 10 years.
  5. Motorized vehicles – Examples include, but are not limited to, cars, mini-vans, vans, boats, and light general-purpose trucks. Motorized vehicles are normally depreciated over a useful life of 5 years.
  6. Heavy equipment – Examples include, but are not limited to, buses, heavy general-purpose trucks, forklifts, snowplows, and agricultural equipment. Heavy equipment items are normally depreciated over a useful life of 10 years.
  7. Library holdings – Library holdings include library books, music, artistic, and reference materials included in the university's library collection. Examples include, but are not limited to, books, microfilm, microfiche, government documents, films, videocassettes, audiocassettes, phonograph records compact disc - audio, slide set, filmstrip, transparency, maps, multimedia kit, three-dimensional models, non-catalogued pamphlets, computer software manuscripts and archives, photographs, and compact disc. Library holdings are normally depreciated over a useful life of 10 years.
- D. The same accounting rules that apply to building improvements apply to improvements to nonexpendable personal property.
- E. As assets near the end of their estimated lives, the estimates should be reviewed for accuracy of the original estimate and

adjusted to reflect the anticipated number of years of continued use.

1. Any adjustment of estimated lives is a change in accounting estimate and should be applied to current and future depreciation calculations.

## **Software**

- A. Software with a cost of \$100,000 or greater should be capitalized and amortized.
  1. Capitalized software costs will include external direct costs of materials and services consumed in developing or obtaining internal-use computer software.
  2. Training costs are not internal-use software development costs and should be expensed as incurred.
  3. Data conversion often occurs during the application development stage. Data conversion costs should be expensed as incurred.
  4. Internal costs incurred for maintenance should be expensed as incurred.
- B. Software costs are normally be amortized over a useful life of 10 years.
- C. For each module or component of a software project, amortization should begin when the computer software is ready for its intended use, regardless of whether the software will be placed in service in planned stages that may extend beyond a reporting period.
  1. For purposes of this guideline, computer software is ready for its intended use after all substantial testing is completed.
  2. Amortization shall begin the year in which the first module is placed in service. A full year of amortization will be charged the first year regardless of the actual implementation date.
- D. Software with a cost less than \$100,000 should be expensed unless the university determines, and provides justification, for capitalizing.
  1. For example, if the university purchases a separate software package to support the Banner system (example Luminous Premier), it may be appropriate to capitalize the cost even if less than \$100,000 since it is directly related to the Banner system.
  2. It should be noted that software licensing agreements that are not perpetual in nature will be expensed, regardless of

cost.

- E. As assets near the end of their estimated lives, the estimates should be reviewed for accuracy of the original estimate and adjusted to reflect the anticipated number of years of continued use.
  - 1. Any adjustment of estimated lives is a change in accounting estimate and should be applied to current and future depreciation calculations.

**Livestock**

- A. Livestock should be expensed.

**Works of Art, Historical Treasures and Other Similar Assets**

- A. Works of art, historical treasures, and other similar assets should be capitalized whether held as individual items or as a collection. These can include, but are not limited to, paintings, works of art on paper, photography, sculptures, maps, manuscripts, recordings, film, artifacts, textiles, and other memorabilia.
- B. These items with a cost (or fair value at the date of donation) in excess of \$5,000 will be capitalized at their historical cost or fair value at the date of donation.
- C. Collections that meet all of the following criteria will not be capitalized:
  - 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. Proceeds from the sales of collection items must be used to acquire other items for collections.
- D. Notwithstanding paragraph Works of Art, Historical Treasures and Other Similar Assets Section, C above, any collections already capitalized at June 30, 1999, will remain capitalized and any additions to such collections will be capitalized.
- E. Capitalized collections or items which are exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, should be depreciated over their estimated useful lives. Inexhaustible collections or items are items where the economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long. Depreciation is not required for collections which are inexhaustible.

- F. Capitalized collections deemed exhaustible should be depreciated over a useful life of 10 years.

- Sensitive Minor Equipment**
- A. Sensitive minor equipment items are of a movable nature which is particularly vulnerable to theft and have a cost or fair value (for donated items only) between \$1,500.00 and \$4,999.99, regardless of funding source.
    - 1. The following items are examples of items that may be viewed as sensitive minor equipment: binoculars, boat motors, boat trailers, boats, cameras, camera lenses, canoes, computers, external computer storage devices, ham radios and receivers, marine band transmitters and receivers, microscopes, musical instruments, scientific equipment, oscilloscopes, PDAs, printers, projectors, radio scanners, external computer scanners, spectrum analyzers, televisions, two-way radio transmitters and receivers, vector scopes, video cameras, video recorders and players, and waveform monitors.
    - 2. All weapons, regardless of cost, should be considered sensitive minor equipment.
  - B. The university will perform a risk assessment to determine which items should be designated as sensitive minor equipment for the university.
    - 1. The useful life of sensitive minor equipment is estimated at 3 years, after which the fair value will be considered to be nominal.
  - C. Although sensitive minor equipment items are not capitalized, they must be identified and inventoried.
    - 1. Physical inventory of sensitive minor equipment should be conducted annually.
    - 2. Sampling is an acceptable method of conducting the physical inventory of sensitive minor equipment.

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**Revision Dates**

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APSU Policy 4:035– Issued: March 25, 2017

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**Subject Areas:**

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| Academic | Finance | General | Human Resources | Information Technology | Student Affairs |
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**Approved**

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President: signature on file

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