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| | Origination date: 01/01/2000 |
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## PURPOSE

To establish policies and procedures for recording and depreciating fixed assets.

## SOURCE

University Policy, GAAP, GASB 34, 35 and 51, ABOR, State of Arizona Accounting Manual (SAAM)

## CMP 130: Capitalization

Fixed assets are recorded and maintained in the Investment in Plant fund through the University's Asset Management system. Capital assets acquired, regardless of the source of funds, and donated must comply with this policy and other related policies.

### Asset Categories:

| Asset Category | Capitalization Threshold | Useful Life (Years) |
|---|---|---|
| Land | NA | NA |
| Buildings | | |
| New Construction | 100,000 | 40 |
| Renovations | 100,000 | 20 |
| Pre-Fab Buildings | 100,000 | 25 |
| Leasehold Improvements | 100,000 | Lease term including expected renewal period |
| Equipment | 5,000 | 5 to 15 |
| Infrastructure | 100,000 | 20 to 40 |
| Library Books | Capitalized if the item becomes part of the library volume count | 10 |
| Collections | 1,000,000 | NA |
| Intangible Assets | See CMP140 - Intangible Assets | |
| Leased Assets | See CMP 145 - Lease Reporting | |

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**Land**

Real property acquired by purchase, gift, grant, purchase, lease purchase, condemnation or by other lawful means. Capitalized at original cost or value at donation. Land and structures purchased or donated together will be capitalized separately when possible. Cost of readying the land for use will be capitalized along with the cost of the land. Acquisition through Eminent Domain includes land acquired by the university through court award is recorded at cost. Cost includes court award to the landowner(s), court costs, legal fees, appraisal cost, title cost and other costs to provide an unencumbered title to the Arizona Board of Regents, for and on behalf of the Northern Arizona University.

**Buildings**

Structures owned by Northern Arizona University for housing humans, marine, plant or animal life, materials, supplies, equipment, and mechanical apparatus. The cost of buildings includes all expenditures related directly to the acquisition or construction. These costs include materials, labor, overhead, professional fees, and building permits. All costs incurred, from excavation to completion, are considered part of the building costs.

**Building Renovation** - The reworking of an existing building or portion of an existing building, including the upgrading of major systems, which extends the useful life, the functionality, and or efficiency of the building. Renovation includes the major replacement, or upgrading of building systems, components, roofing systems or fixed equipment that is necessitated by facility or system obsolescence, change in use, code requirements, physical plant wear-out.

Typical projects include but are not limited to:

- Demolition of the interior of a building or portion thereof for purpose of changing the functional use of the space (e.g., classroom space converted to lab space). Work performed might include the removal and subsequent replacement of electrical, plumbing, heating and air conditioning systems, fixed equipment, floor coverings and interior walls and partitions (whether fixed or moveable). Included are all permanently attached fixtures, machinery, and other components that cannot be removed without damaging the buildings. If a component can be removed without damaging the building, it is considered equipment and should not be included in the value of the building renovation.

- Stand-alone system upgrades for critical building systems, such as the Electrical, HVAC, Security, Life Safety, Lighting, Utilities, Telecom, and Energy Management. Such projects address functional obsolescence, operational efficiency and health and safety concerns of building space. Partial system upgrades could be considered as renovation if part of a planned or phased building-wide system upgrade.

- If an individual project cost is less than $100,000, the expense is to be charged to repair and maintenance expense, rather than capital. Cosmetic remodeling, such as painting and wall coverings as part of a periodic redecorating, is a maintenance and repair activity (see building renewal). These costs shall not be capitalized, except when it is incidental to a renovation project.

**Building Renewal -** Major activities that involve the repair or reworking of a building and the supporting infrastructure that will result in maintaining a building's expected useful life. By default, projects not meeting the requirements of building renovation (see above) are considered building renewal projects. Examples include, but are not limited to: replacement of faulty building components, painting and other cosmetic improvements. This repair work does not usually make the building more useful or add to the estimated useful life of the building as a structure.

**Leasehold Improvements -** Improvements to land and buildings leased by the University for purposes of readying leased space for intended use. When a land and/or building lease is not renewed, the recorded cost of any leasehold improvements is written off by Property Management.

**Equipment**

**Fixed Equipment** - Consists of permanently affixed/installed furniture, fixtures and equipment. Examples include but are not limited to: elevators, bulletin boards, kitchen cabinets, walk in boxes, building directories, library shelving, drinking fountains, signage, plumbing fixtures, building mechanical systems, chalkboards, backbone telecom/data/systems and electrical systems, fixed electronic equipment, and fixed theater or classroom seating, as well as other fixtures and equipment installed with the intent of permanent use in that location.

**Furniture/Fixtures and Equipment (FF&E) -** Moveable furniture, fixtures, or equipment that requires no permanent connection to utilities or to the structure. They may require utility outlets, but are plug-in types. Examples include but are not limited to: moveable or non-fixed theater or classroom seating, electronic equipment, desks, chairs, bookcases, files, waste receptacles, easels, partitions, refrigerators, tables, credenzas, stools, typing stands, computer stands and other furniture, including interior wall/furniture systems. FF&E also includes scientific or technical equipment such as centrifuges, lasers, spectrometers, shop equipment/tools, kilns, and microscopes.

**Fabricated Equipment**

Fabricated Equipment must be accounted for in the University's Asset Management system with a property tag number and follow the cost accounting requirements within this section. The following examples are expenses included in the asset value: raw materials and parts to be affixed to the equipment, reasonable start-up supplies and parts, shipping and handling and installation charges from outside vendors or internal service centers. The following examples are expenses not included in calculating the value of the asset: production equipment, documentation, repair or maintenance expense, administrative support, enhancements not integrated into the equipment, Facilities and Administrative (F&A) costs, payroll expenses and travel.

**Infrastructure**

Non-building improvements that directly support operating a facility such as, but not limited to, utility delivery systems, roadway systems, external lighting systems, irrigation systems, sidewalks and parking lots. Additional campus infrastructure includes: campus grounds, other circulation systems (bike paths, pedestrian routes, etc.) and parking structures.

**Telecommunications Network Systems -** Consists of the power conduit, cabling/wiring, electronics, and the telephone switching equipment and components necessary for the campus-wide delivery (both between buildings and within buildings from floor to floor) of electronically transmitted communications, principally voice (telephones) and data (computers), where such equipment and components are purchased and installed by NAU Telecommunications and when such equipment is *NOT* capitalized as a sub-component of either: 1) a new building construction project; or 2) a building renovation project; or 3) a utility improvement/renovation project; or 4) is expensed to operations and maintenance of plant as a sub-component of a building or utility improvements/renovation project when total cost falls below the $100,000 improvements capitalization threshold. All improvements to the telecommunications network system, as defined above, are capitalized as an aggregate addition by depreciable component to the telecommunications network system.

**Infrastructure Improvements -**Infrastructure improvements are capital events that materially extend the useful life or increase the value of the infrastructure, or both. Infrastructure improvements meeting the capital threshold should be capitalized as betterments and recorded as an addition of value to the infrastructure if the project materially increases the life or value of the asset relative to the original cost or life period.

Work to maintain portions of an infrastructure system in the existing condition, should be expensed. Such work can be characterized as occurring as part of annual maintenance budget which typically includes work across multiple locations. Examples include annual concrete repairs and parking lot repairs and overlays.

Projects identified as materially extending the useful life or increasing the value of an infrastructure system should have a specific budget and be identified to a specific location on campus. Examples of projects that increase the overall value of the infrastructure system would include road extensions or replacements (including base layer), new pedways, utility extensions and network replacement projects.

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**Library Books**
Capitalized if the item becomes part of the library volume count. All acquisitions of books, periodicals, and other media for the Cline Library will be capitalized at direct cost including shipping. The total value expended during a fiscal year will be assigned a tag number and capitalized as one item. Annual removals will be determined by a memo from the Library's Bibliographic Services Department which will include the number of volumes/items at a set rate. Library books will be depreciated over a period of ten years.

**Collections**
There are two categories of collections. Qualified Collections are those collections that meet the three provision listed below. Non-qualifying Collections are those collections that do not meet the three provisions. Collection donations meeting the $1,000,000 threshold must be supported by and outside independent appraisal.

A **qualifying collection** is subject to all of the following provisions:

1. The collection is to be held for public exhibition, education, or research in furtherance of public service, rather than for financial gain: and

2. The collection is to be protected, cared for and preserved: and

3. The net proceeds from the sales of collection items are to be used to acquire other items for collections.

"Net proceeds" is defined as the gross selling price less all direct expenses of the sale. The collections to which the sold items and the acquired items belong need not be the same.

Departments are responsible for maintaining an inventory of each collection. By June 30th of each fiscal year, departments should furnish the Comptroller's Office and Property Administration a summary listing of qualifying collections in their possession; collection name and general type of items in the collection.

**Disposal of Collection Items**

In the unlikely event that an item is sold, all proceeds from the sale or disposal are to be used to acquire other items or to enhance the universities other special collections.

**Non-qualifying collections** are to be capitalized at cost or fair market value at time of donation (established by appraisal). Departments with or acquiring non-qualifying collections must notify the Comptroller's Office.

Departments should consult NAU Risk Management Services to determine the insurability of their collections.

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## CMP 130: Depreciation

The University uses the Straight-Line method over the estimated useful life of the asset. All Buildings, Improvements, Infrastructure and Library books will use a July 1st acquisition date in the year of completion or acquisition for the start of the calculation of depreciation expense and the disposition date in the year of disposal for the termination of the calculation of depreciation expense. Equipment will use the receipt (PeopleSoft Financials receiver document) date for the acquisition date and the start of the calculation of depreciation expense. Equipment will use the disposition date for the termination of the calculation of depreciation expense. Either the date of the receipt for assets sold, or the PCA, (Property Control Authorization), document date for assets lost or stolen, determines the disposition date.

Depreciation expense is calculated and recorded monthly based on the number of days the asset is in service during the calculation period.

**Depreciation - Non-Titled Assets**
Purchases with non-NAU funds (Office of Sponsored Projects) where title to the asset remains with the sponsor. No depreciation is recognized on these assets. Assets are tracked in the Property Control system as a separate asset type. These assets result in a zero effect on the University Financial Statements (asset and offsetting contra-asset). Office of Sponsored Projects should notify Property Administration when grants, which will be purchasing assets, are received and the sponsor retains title to the asset.

**Depreciation – Federal Funded Assets**
These are treated the same as all other capital assets and depreciated, unless the sponsor retains title, see depreciation – non-titled assets.

## CMP 130: Other

**Valuation**
All assets will be valued at historical cost, which is the consideration given or received, including purchase price and ancillary charges necessary to place the item in its intended location and condition for use.

**Salvage Value**
The university will capitalize and depreciate assets using a zero salvage value.

**Construction in Progress (CIP)**
Assets requiring a construction period such as new buildings, building renovations, leasehold improvements, infrastructure projects and fabricated equipment should be capitalized upon completion.

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Construction projects are accounted for in the Unexpended Plant Fund and are initially capitalized to CIP. Subsequent treatment of the expenditures depends on the basic nature of the work done. Where a project involves both a capitalized and non-capitalized activity, such as a betterment along with maintenance to systems in the affected space, the accounting treatment shall be applied appropriately when the asset is moved from CIP to the completed asset. Construction of assets will be deemed complete when it is ready for occupation or the asset is ready for intended use.

**Land Records**
The Comptroller's Office will establish and maintain records of land owned by the University and the value assigned.

**Leased Equipment**
Leased equipment will be recorded and valuation will be determined using current generally accepted accounting principles. (see CMP 145 – Lease Reporting)

**Equipment Tagging**
All equipment will be tagged and inventoried according to NAU Property Administration Policy.

**Grouped Assets**
On a case-by-case basis, assets purchased as a group that individually don't meet the capitalization threshold may be considered for capitalization if the aggregate cost is significant. Computers, classroom furniture, and library books are examples of asset types that may not meet a capitalization policy on an individual basis yet could be significant collectively. Such grouping of assets might typically occur when furnishing a new building.

## CMP 130: Responsibilities

**Planning, Design & Construction (PD&C)**
Responsible for submitting Capital Project Authorization (CPA) forms for campus building and infrastructure projects, managing and reporting on capital projects.

**Information Technology Services (ITS)**
Responsible for submitting Capital Project Authorization (CPA) forms for telecommunication projects managed by ITS and not incidental to PD&C building projects.

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**Financial Accounting Services (FAS)**
Responsible for determining if CPA projects meet capitalization policy, setting up capital projects in the financial system, monitoring capital activity, entering non-capital equipment in the asset management system, running monthly asset activity processes in the financial system, preparing year-end asset adjusting entries, and preparing asset financial notes.

**CaPCOT Financials**
Responsible for providing support and oversight of accounting and financial functions for capital projects created through the CPA process.

**Purchasing and Contract Services**
Responsible for ensuring that capital projects and capital equipment purchase orders are properly coded in terms of commodity and expense account classification.

**Property Control**
Responsible for Tagging newly acquired capital equipment, recording equipment assets in the asset management system, overseeing and conducting spot checks of annual physical equipment inventory, maintaining accurate records of capital equipment and assisting in annual audits. Property Control is also responsible for tracking fabricated equipment and working with the responsible department to determine when the asset is ready for use.

## CMP 130: Procedures

**Capital Project Authorization (CPA)**
Requests for capital project funding are submitted through the Capital Project Authorization (CPA) form. The CPA form is routed is routed to various areas for approval, capitalization determination, and project and budget setup. CPA projects must contain sufficient detail to support project funding and capitalization determination. To the extent possible, projects that meet capitalization criteria must have their own CPA request and should not be combined with multiple building or infrastructure locations on campus. If multiple buildings are included in a CPA, PD&C and CaPCOT Financials are responsible for providing FAS with expense breakouts by building in order to appropriately apply capitalized costs to the building asset.

**Project Management & Reporting**
Planning, Design & Construction (PD&C) works with Purchasing and Contract Services to contract for project construction services. Awarded contracts are managed through PD&C's project management

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system. All contractor invoices for a project are reviewed and approved by the project manager and are then processed CaPCOT financials and the accounts payable system.

Construction expenses are tracked at the project level in the unexpended plant fund. Upon completion of the project, capitalizable costs are moved by FAS to the investment in plant fund for projects deemed to be capital projects. Costs not deemed to be capital are reported as operation and maintenance of plant expenses. Construction projects must be deemed substantially complete by PD&C before they can be capitalized. Projects that have not been completed by year-end, are reported as construction in progress (CIP) in the unexpended plant fund.

**Equipment and Library Assets**
Equipment and library purchases should be made through the normal procurement process. Purchasing Services is responsible for ensuring that all purchase orders and vouchers are coded correctly to either capital or non-capital. Completed purchases will be reviewed by Property Control and FAS, and if necessary, corrections will be made to the expense classifications. Property Control is responsible for entering equipment assets into the asset management system and ensuring that equipment is properly tagged.

**Monthly Asset Processing**
FAS is responsible for running the monthly asset close process in the asset management system. This process records asset additions, deletions, transfers and depreciation for all capital assets, and then interfaces the activity to the financial system general ledger.

## CROSS-REFERENCES

Arizona Board of Regents - Policy Manual

CMP 430-25 Physical Count of Capital Equipment

Property Control - Policy

CMP 140 Intangible Assets

State of Arizona Accounting Manual (SAAM) – Long-Lived Resources: Capital Assets, Etc