Ownership, Depreciation and Capitalization of University Assets
FIN-ACC-150

About This Policy

Effective Dates:
07-01-1992

Last Updated:
08-01-2018

Responsible University Administrator:
Executive Vice President for Finance and Administration

Policy Contact:
Joy Maddox
Associate Director, Capital Assets & Federal Cost Accounting
jemaddox@iu.edu

Scope

This policy governs the ownership, capitalization and depreciation of any capital asset in the custody of Indiana University.

Policy Statement

A. A Capital Asset is any asset that has an acquisition value that meets or exceeds the capitalization threshold for its respective asset type and a useful life expectancy of one year or more. Departments that purchase or use capital assets are required to use the appropriate capital asset object code to ensure the university can properly identify ownership and accurately record the cost and depreciation of all capital assets.

B. Ownership

1. University capital assets include:
   - Art and museum objects
   - Buildings
   - Capital leases
   - Infrastructure
   - Intangible assets
   - Land
   - Land improvements
   - Leasehold improvements
   - Library acquisitions
   - Movable equipment

2. With the exception of federally funded capital assets, the title to or ownership of all university capital assets are vested in the Board of Trustees of Indiana University. Title to capital assets (equipment) purchased on sponsored program accounts is generally retained by Indiana University without further obligation to the sponsor. The specific terms of the sponsored award should be reviewed to determine ownership. In some cases, title may be retained by the sponsor or the title may provide for conditional title to IU. For federally purchased equipment, please refer to 2 CFR 200.313 and the terms of the specific award. Questions may
be directed to the Office of Research Administration. University capital assets do not become the property of the project director or the principal investigator.

C. Depreciation

1. Indiana University depreciates the capital asset categories of buildings, capital leases, infrastructure, intangibles, land improvements, leasehold improvements, library books, and movable equipment. Indiana University uses the straight-line depreciation method.

D. Capitalization

1. The capitalization criteria for each of the university’s capital asset categories is detailed below.
   a. Art and Museum Objects
      i. The capitalization threshold for art and museum objects is $5,000. If the acquisition cost of a collection meets the threshold, then it should be capitalized as a collection if the university will retain ownership of all items in the collection.
      ii. In order to assign an acquisition value, donations of art and museum objects to the university must be appraised if value is $5,000 or more. The Indiana University Foundation Planned Giving office is prepared to assist the university and donors in connection with the appraisal requirements and substantiation of such in-kind gifts.
   b. Buildings
      i. The capitalization threshold for buildings is $75,000. The acquisition cost of a building shall include all direct expenses. Construction costs shall include materials, labor, overhead directly related to the construction, building permits and fees e.g., attorney and architect fees. Interest on indebtedness related to the building will be capitalized during the construction process. Any purchase of a building shall allocate a portion of the purchase price to land.
      ii. In order for costs to be capitalized and added to the cost of an existing building, they must meet the following criteria:
         1. The improvement must be an attached fixture that would cause major structural damage if removed.
         2. The expenditure must increase the life or enhance the utilization of the building.
   c. Capital Leases
      i. Leased assets are capitalized, regardless of cost, if the lease contract is longer than one year and transfers substantially all of the benefits and risks inherent in ownership to the lessee, which occurs when one of the following four criteria have been met:
         1. The lease transfers ownership 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% or more of the estimated economic life of the leased property.
         4. The present value of the minimum lease payments equals or exceeds 90% of the fair value of the leased property.
      ii. Lease contracts should be sent to Capital Asset Management to determine if it meets the requirements of a capital lease.
   d. Infrastructure
      i. The capitalization threshold for infrastructure is $75,000. Infrastructure items that have a life of their own exclusive of the land or building(s) on that land should be capitalized in this category. Examples of infrastructure items include sidewalks, roads, walkway lighting, telephone and network wiring, steam pipes, maintenance tunnels and sewer systems.
   e. Intangible Assets
      i. The capitalization threshold for intangible assets is $500,000. For an intangible asset to qualify for capitalization purposes, it must meet all of the following requirements:
1. The intangible asset has a useful life greater than one year.
2. The asset is nonfinancial in nature and lacks physical substance.
3. The university has the ability to sell, transfer, license, or rent the asset to another party OR the asset arises from a contractual or legal right.
4. The intangible asset must not be acquired or created primarily for the purpose of generating income or profit, the result of a capital lease transaction, or goodwill created through the combination of the university with another entity.

ii. If an intangible asset is internally generated, all of the following additional criteria must also be met in order to capitalize outlays related to the development of the intangible asset:
   1. Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project
   2. Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity
   3. Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

iii. Outlays incurred subsequent to meeting the above criteria will be capitalized. Outlays incurred prior to meeting those criteria will be expensed as incurred. All intangible assets meeting the capitalization requirements specified above will be amortized unless the intangible asset has an indefinite life.

iv. Any department that believes they have acquired a qualified intangible has the responsibility to notify Capital Asset Management, which will conduct an additional review to ensure that the asset is properly classified within the Capital Asset Management System.

f. Land
   i. There is no capitalization threshold for land. All costs incurred in acquiring land should be considered as part of the land cost. These expenditures shall include the purchase price, closing costs, and the assumption of any mortgages or liens. All direct costs incurred in getting the land ready for use shall also be considered as part of the land price. Any other land improvement shall also be considered a land capital expenditure if it increases the utility. Any purchase of real estate that includes a building should have a portion of the purchase price allocated to land.

   ii. Real estate purchased with the purpose of constructing a building is capitalized as land. Any costs incurred in preparing the land for use will also be considered part of the land cost, e.g., demolition costs. Benefits received for clearing the land in preparation of building will be considered a reduction on the price of the land.

g. Land Improvements
   i. The capitalization threshold for land improvements is $75,000. Capital land improvements are those items that have a life of their own exclusive of land or building(s). Examples of land improvements include site excavations and improvements, retaining walls, parking lots, fountains, athletic fields, tennis courts, yard lighting, fencing and landscaping.

h. Leasehold Improvements
   i. The capitalization threshold for leasehold improvements is $75,000. All improvements made to leased premises should be capitalized and depreciated over the remaining life of the lease if a given improvement meets the building capitalization criteria above.

i. Library Acquisitions
   i. The capitalization threshold for library acquisitions is $1. Library books must be cataloged in the university library system in order to be capitalized. There is no limitation as to the total cost spent per unit. Departmental purchases of manuals or other professional guides not cataloged in the university library system will not be capitalized. Since library books are not uniquely identified in
the Capital Asset Management System but capitalized as a group, library books are retired when fully depreciated.

j. Movable Equipment

i. The capitalization threshold for movable equipment is $5,000. The acquisition value includes the university’s cost of equipment and all additional costs necessary to place an asset in its intended location and condition for use. Additional costs that should be capitalized with equipment purchases include the cost of asset assembly, asset installation, freight, in-transit insurance, training for use of the asset, and preparation of the asset and/or asset site for its intended use.

ii. Repairs, replacement parts, general maintenance, warranty agreements and software license agreements purchased with the equipment are not capitalized as part of the equipment cost.

iii. Movable equipment assets are capitalized net of cash, trade-in allowances and other earned discounts.

iv. For donated capital assets, the acquisition value is the fair market value at time of donation, or appraisal value.

v. Generally, equipment that is attached to a building is capitalized as movable equipment when removing the equipment does not cause structural damage to the building and will not destroy the equipment.

Reason For Policy

To establish ownership guidelines for University capital assets in the custody of Indiana University, to define the capitalization criteria for the capital asset categories of the university, and to convey the method of depreciation used for capital assets.

Definitions

Amortization: the process of allocating the cost of intangibles as an expense in a systematic and rational manner to those periods expected to benefit from the use of the asset.

Bargain Purchase Option: a provision allowing the lessee the option of purchasing the leased property for an amount, exclusive of leased payments, which is sufficiently lower than the expected fair value of the property at the date the option becomes exercisable.

Capital Assets: assets have an acquisition cost that meet the capitalization threshold for its respective asset type and have a useful life expectancy of one year or more.

Capitalization Threshold: dollar amount that determines the proper financial reporting of an asset; asset acquisition costs over threshold are capitalized as an asset on the balance sheet; below are expensed.

Cataloged: indicates the items are listed and registered in an alphabetical file and are available for the use of others.

Closing Costs: include items such as attorney fees and title updates.

Depreciation: the process of allocating the cost of property, plant and equipment as an expense in a systematic and rational manner to those periods expected to benefit from the use of the asset.

Equipment: includes scientific and technical equipment, delivery equipment, medical equipment, office equipment, machinery, furniture and fixtures, factory equipment and similar fixed assets.

Infrastructure: include sidewalks, roads, walkway lighting, telephone and network wiring, steam pipes, maintenance tunnels and sewer systems.

Intangible Assets: assets that lack physical substance, are non-financial in nature, and have a useful life greater than one year; examples include, but are not limited to, easements, water rights, timber rights, patents, copyrights, trademarks, and computer software (purchased, licensed, and internally generated).
Internally Generated Software: software developed by Indiana University staff or an entity contracted by Indiana University, or acquired from an external entity but requiring more than minimal incremental effort on the part of Indiana University to begin to achieve its expected level of service capacity

Land Improvements: expenditures for improvements to the land, other than buildings or infrastructure, that ready land for its intended use; examples include site excavations and improvements, retaining walls, parking lots, fountains, athletic fields, tennis courts, yard lighting, fencing and landscaping

Lease: a contractual agreement conveying the right to use property, plant or equipment for a stated period of time

Library Acquisitions: includes library books, films, recordings, and monographs.

Licensed Software: software that Indiana University has the right to use for a specified period of time based on an agreement with the vendor

Nonfinancial Nature: asset that is not in a monetary form similar to cash and investment securities, and it represents neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services

Additional Contacts

<table>
<thead>
<tr>
<th>Capital Asset Management</th>
<th><a href="mailto:cassfran@iu.edu">cassfran@iu.edu</a></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cassandra Amadio</td>
<td>Associate Controller &amp; Chief Accountant</td>
</tr>
<tr>
<td>Anna Jensen</td>
<td>Associate Vice President &amp; University Controller</td>
</tr>
</tbody>
</table>

History

This policy replaces or updates policies FIN-ACC-150, FIN-ACC-180, FIN-ACC-190, FIN-ACC-200, FIN-ACC-210, FIN-ACC-215, FIN-ACC-220, FIN-ACC-230, FIN-ACC-240, FIN-ACC-261, and FIN-ACC-270.

The sources of this policy are:

Office of Management and Budget (OMB) Uniform Guidance

Code of Federal Regulations Title 2 §200.313 Equipment

Financial Accounting Standard Board (FASB) Statement No. 96

Governmental Accounting Standards Board (GASB) Statement No. 8

GASB Statement No. 34

GASB Statement No. 51

GASB Statement No. 62

American Institute of Public Accountants (AICPA) Guidelines for Colleges and Universities, GAAP

Related Information

Capital Asset Standard Operating Procedures