Objective

The purpose of this policy is to provide a framework and process for capital and non-capital infrastructure needs including technology. A capital asset system provides control and accountability over capital assets and maintains information needed to project and budget future capital asset needs for Pacific University. Technology along with deferred maintenance may be classified as capital or non-capital depending on the type and associated cost. As such, these items will be included in this guide because of its impact on infrastructure needs.

Capital Asset Definitions and Guidelines

Capital assets are tangible and intangible assets acquired for use in operations that will benefit more than a single fiscal period. Typical examples are land, improvements to land, easements, water rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and various intangible assets. (Land associated with infrastructure should be reported as land rather than as part of the cost of the related infrastructure assets.)

A capitalized asset is an asset that has a value equal to or greater than the capitalization threshold established for that asset type.

Capital Asset Acquisition Cost

Capital assets are recorded and reported at their historical cost. Historical cost includes the vendor's invoice (less the value of any trade-in), initial installation cost (excluding in-house labor), modifications, attachments, accessories or apparatus necessary to make the asset usable and render it into service. Historical costs also include ancillary charges, such as freight and transportation charges, site preparation costs and professional fees.

PLEASE NOTE: The book value of assets recorded at historical costs should never be increased to reflect appraised value, insurance value, replacement cost, etc.

Capital Asset Type and Capitalization Thresholds

The University has invested in a wide variety of capital assets used in operations. These assets are broadly classified as follows:

Capitalization Threshold for capitalizing assets for each major class of assets is as follows:

Asset Type	Threshold
• Land **	Capitalize All
• Land Improvement	$ 5,000
• Buildings	$ 50,000
• Building Improvements	$ 5,000
• Leasehold Improvements	$ 50,000
• Capital Leases	$ 5,000
• Equipment/Vehicles	$ 5,000
• Construction-in-Progress	$ 5,000
• Gift-in-Kind	$ 5,000

The asset type is used to organize capital assets in the broad classifications above. An essential function of the asset type is to establish a link between the asset master record and the related posting to the accounting general ledger. Therefore, assets purchased, constructed or donated that meet or exceed the capitalization threshold, or minimum reporting requirements, must be uniformly classified, utilizing the existing asset type structure.

Capital Asset Determination and Assignment of Useful Lives

PC Computers and AV Equipment – 3 years

This category will include all personal computer equipment (Apple, IBM, Amiga, etc.) as well as all audio visual equipment (DVD's Camcorders, Editors, Cameras, etc.). These assets are given three year useful lives due to the nature of the assets. These high tech assets quickly become obsolete and, therefore, might be replaced at more frequent intervals.

Mainframe Computer Equipment /Autos/Motorized – 5 years

This category includes all mainframe equipment such as main CPU, all the terminals and desk stations as well as their peripheral equipment including printers, fax machines. This does not include equipment that is an integral part of other capital equipment listed in another category.

All automobiles and motorized equipment such as lawn mowers, and other motorized plant equipment EXCEPT for tractors and unlicensed vehicles which are in a different category.
Any property that does not have a class life and has not been designated by law as being in any other class, for example: 20 ft storage container – Steel box.

These assets are given five year useful lives because they qualify as high tech equipment which may become obsolete quickly. However, the obsolescence timeframe is not considered to be as quick as the PC and AV equipment mentioned above. Also includes portable floors for the athletics department.

Data Handling Equipment; except computers – 6 years

This category includes only typewriters, calculators, adding and accounting machines, telephones, copiers, and duplicating equipment.

Technical/Mechanical/ High Tech Medical/Kitchen and Library Equipment/Musical Instruments – 7 years

This category includes all technical equipment for the following departments:

1. Chemistry
2. Physical Therapy
3. Biology
4. Theater
5. Optometry
6. Physics
7. Physical Therapy
8. Occupational Therapy
9. Any other Departments with specialized technical equipment

This category includes high tech medical equipment and mechanical equipment EXCEPT motorized equipment. It includes equipment used in the food services department and equipment used in the library such as microfiche and microfilm machines. This category also includes all musical instruments EXCEPT pianos.

Fitness Equipment – 8 years

This category includes athletic exercise equipment and canoes.

Furniture and Fixtures – 10 years

This category includes all furniture and fixtures that are not a structural component of a building. This includes desks, files, safes, and communications equipment. This does not include communication equipment that is in other categories. This also includes bleachers.

Refrigerated Cases and Walk in Coolers – 12 years

This category includes all refrigerated cases and walk-in coolers.

Pianos/ Library Books/Tractors/Unlicensed Vehicles – 15 years

All pianos are assigned a fifteen year life.
Facilities Equipment and tools, tractors, unlicensed vehicles, and utility trailers are also included in this category.
Medical Diagnostic Equipment: For example, Sound Booths for Audiology

HVAC – 20 years

HVAC is assigned a twenty year life.

Buildings and Building Improvements – 10 – 50 years

Lives were assigned to the various buildings based on the building's origin and history. Buildings originally built by the University were assigned 50 year lives as these buildings were mainly large academic structures. Buildings purchased by the University such as the houses and the apartments were assigned 30 year lives. Building improvements were judgmentally assigned lives based on the nature of the improvement. For example, the installation of a new gym floor was assigned a life of twenty years and the construction of a new roof was given a ten year life.

Land Improvements – 30 – 50 years

Land improvements of a depreciable nature such as tennis courts and other improvements with finite lives were assigned useful lives ranging from 30 – 50 years depending on the nature of the improvements.

Depreciation Method and Procedures

The straight-line depreciation method will be used for all asset categories. Salvage values will be assumed as zero for all assets as the University's habit is to hold assets for many years past the end of their book useful lives.

Disposal Date-University Information Services (UIS)
The disposal date is when the equipment leaves the University and not when it goes into storage. We cannot guarantee that it won't be reused from the storage room.

Capital Asset Categories

Land

Land is defined as the surface or crust of the earth, which may be used to support structures or grow crops, grass, shrubs, and trees. Land is characterized as having an inexhaustible life. All expenditures made to acquire land and to ready it for its intended use should be considered as part of the land cost.

Examples of expenditures to be capitalized as land:

- Purchase price or, if donated, fair market value at time of donation
- Commissions
- Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.)
- Permanent landscaping such as land clearing, excavation, fill, grading, drainage (includes movement of earth in preparation for water impoundment)
- Demolition of existing buildings and improvements (less salvage)

- Removal, relocation, or reconstruction of property of others on the land so that the land may be used differently (power lines)
- Interest on Mortgages accrued at date of purchase
- Accrued and unpaid taxes at date of purchase
- Other costs incurred in acquiring the land
- Water wells (includes initial cost for drilling, the pump and its casing)
- Right-of-way

Land Improvements

Land improvements are defined as attachments to the land that have limited lives and therefore are recorded separately and are depreciable.

Buildings

A building is defined as a structure that is permanently attached to the land, or it materially extends the useful life of a building, or both.

A building improvement should be capitalized as a sub-asset of the building and recorded as an addition of value to the existing building if the expenditure for the improvement is at the capitalization threshold.

Examples of expenditures to be capitalized as buildings:

Purchased Buildings

- Original purchase price
- Expenses for remodeling, reconditioning or altering a purchased building to make it ready to use for the purpose for which it was acquired
- Environmental compliance (i.e., asbestos abatement)
- Professional fees (sales commission, legal, architect, inspection, appraisal, title search, etc.)
- Payment of unpaid or accrued taxes on the building at the date of purchase
- Cancellation or buyout of existing leases on the building
- Other costs required to place or render the asset into operation

Constructed Building

- Completed project cost
- Interest accrued during construction for enterprise type activities
- Cost of excavation or grading or filling of land for a specific building
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of building permits

- Professional fees (architect, engineer, management fees for design and supervision, legal)
- Costs of temporary buildings used during construction

Note: Architect fees are expensed if a decision is made to NOT proceed with the construction of the building.

Building Improvements

Note: For a replacement to be capitalized, it must be a part of a major repair or remodel/renovation project that increases the value and/or useful life of the building (such as renovation of a student center) and meets the capitalization threshold. A replacement may also be capitalized if the new item or part is of significantly improved quality and higher value compared to the old item or part. Replacement or restoration of an item to its original utility level is not capitalized. Determinations must be made on a case-by-case basis.

Building Maintenance Expense

Maintenance costs allow an asset to continue to be used during its originally established useful life. Maintenance costs are expensed in the period incurred.

The following are examples of expenditures that are NOT capitalized as building improvements. Instead, these items should be recorded as repair and maintenance expense:

- Adding, removing and/or moving of walls relating to renovation projects that are not considered major remodel/renovation projects and do not meet the capitalization threshold.
- Repairs to plumbing , electrical, minor masonry and roofing, and sidewalks
- Cleaning, pest extermination, or other periodic maintenance
- Interior decoration, such as draperies, blinds, curtain rods, wallpaper
- Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.

Leasehold Improvements

Leasehold improvements are defined as improvements made to leased property that will revert to the lessor at the expiration of the lease. Leasehold improvements include construction of new buildings or improvements made to existing structure by the lessee, who has the right to use these leasehold improvements over the term of the lease. Moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement. For leasehold improvements, the useful life is the estimated service life of the leasehold improvements, or the remaining term of the lease, whichever is shorter.

If the lessor pays the lessee for a portion of the leasehold improvement, the funds are credited to the asset account to offset the total improvement.

If the lessor funds part of the leasehold improvement by reducing the lease payment over the length of the lease, the funds are then amortized over the length of the lease and the full amount of the improvement is recorded. The lessor portion is reflected on a month to month reduction.

Capital Leases

Capital leases transfers virtually all rewards and risks that accompany ownership of property to the lease. A capital lease is a means of financing property acquisitions and has the same economic impact as a purchase made on an installment plan. Thus, the lessee in a capital lease must record the leased property as an asset and the lease obligation as a liability.

A lease agreement entered is a capital lease and should be capitalized only if the lease agreement meets one of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains a bargain purchase option.
- The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
- The present value of the minimum lease payments at the inception of the lease, excluding administrative costs, equals at least 90 percent of the fair value of the leased property.

Leases that do not meet any of the proceeding criteria should be recorded as an operating lease and reported in the notes of the financial statements.

Equipment

Equipment is defined as fixed or movable tangible assets to be used in operations. Improvements or additions to existing equipment that constitute a capital outlay or increase the value or life of the asset by 25 percent of the original cost or life should be capitalized and recorded as a sub-asset of the existing asset.

Examples of expenditures to be capitalized as equipment include:

- Original contract or invoice price
- Freight charges
- Import duties

- Handling and storage charges
- In-transit insurance charges
- Sales, use, and other taxes imposed on the acquisition
- Installation charges
- Charges for testing and preparation for use
- Costs of reconditioning used items when purchased
- Part and labor associated with the construction of equipment

Equipment vs. Vehicle

A vehicle is a fixed asset that can move itself under its own power. Cars and trucks should be classified as vehicles. Travel trailers, horse trailer, etc. should be classified as equipment. Careful consideration should be given as to whether an asset is a vehicle or equipment.

Construction-in-Progress

Construction-in-Progress (CIP) consists of construction projects subject to capitalization, either tangible or intangible in nature. The asset under construction should be capitalized to its appropriate capital asset category (Land, Land Improvement, Buildings, Building Improvements, Leasehold Improvement, etc.) upon the earlier occurrence of; substantial completion, occupancy, or when the asset in placed into service.

Once the construction project has been completed, the asset must be transferred to the Building list to be capitalized.

Capital Asset Gift-in-Kind Donation

To conform with IRS requirements and in following CASE standards, donated property will follow the following requirements:

- Gifts-in-kind donations require an appraisal from the donor who contributes tangible personal property valued at $500+ and claims a deduction.
- Qualified appraisal is required by the IRS for a gift of $5,000+
- Both appraisal requirements are the *donor's* responsibility, and NOT the University's role. Pacific University will sign the form 8283, but only if the donor makes that requests.
- If the donor is not claiming the deduction, the issue is silent.
- Pacific University may request an appraisal of the donated property for various reasons but the appraisal will not be used in lieu of the IRS's requirement for the donor to provide their own appraisal of donated property in order to receive a gift receipt from the University.
- If Pacific sells the property within 2 years of receipt form 8282 needs to be filed with the IRS and a copy sent to the original donor of the property.