HOWARD UNIVERSITY

Policy Number: 300-004
Policy Title: ASSET CAPITALIZATION
Responsible Officer: Chief Financial Officer
Responsible Offices: Office of the Controller, Departments of Strategic Sourcing and Asset Management and Central Receiving
Effective Date: March 5, 2012

I. Policy Statement

It is the policy of Howard University to maintain effective internal controls to manage its capital assets, and to maintain proper records regarding the use and disposition of those assets. This policy applies to capital assets acquired with internal funding, funding originating from the Federal government or other external sources, and capital assets received by the University by gift or loan.

II. Rationale

It is necessary for the University to safeguard and maintain its capital assets in order to receive the maximum benefit from those assets, to comply with University and Federal requirements regarding use and disposition, and to properly account for its capital assets for financial statement purposes. As a recipient of Federal support under sponsored programs, the University must comply with Federal Office of Management and Budget (OMB) Circular A-110, which sets forth the requirements for managing and safeguarding capital assets, OMB Circular A-21 which sets forth capitalization threshold, with OMB Circular A-133, regarding program audit requirements, and with Federal Acquisition Regulation (FAR), Part 45 – Government Property, which prescribes the minimum requirements that contractors must meet in establishing and maintaining control over government property.

III. Entities Affected by the Policy

This policy applies to all University entities, faculty and staff who have responsibility for purchasing, maintaining or disposing of capital assets.

IV. Definitions

A. **Capital Assets –** Any property, plant, furniture, equipment, and software that equal or exceeds a unit cost or gift value of $3,000, with a useful life of more than one year and is not held for resale or investment purposes. Examples of capital assets include but are not limited to buildings, improvements other than buildings, construction in progress, institutional personal property/movable equipment such as computer equipment, furniture, office machines, vehicles and scientific equipment, computer software and library acquisitions.

B. **Acquisition Cost –** the net invoice price of the asset plus any direct cost needed to prepare the asset for its intended use. These costs include shipping costs, all costs (excluding internal staff and training costs) associated with installation/preparation and any other direct costs incurred in obtaining the asset. If item is donated, the cost would equal the fair market value.

C. **Controllable Assets –** Assets that have a unit value less than $3,000 but with a useful life of more than one year that are tracked for control purposes. Items are tagged and added to inventory as non-capitalized/controllable assets but are not capitalized in the accounting records. Examples include most desk top computers, laptop computers, handheld devices, chairs, desk, calculators, printers, office machines, etc.

D. **Depreciation –** A generally accepted accounting principal method whereby the cost of the capital asset is allocated over the estimated useful life of the asset.

E. **Disposition –** The sale, transfer of ownership, or final disposal of any capital asset.

F. **Expense –** Apply charges to the current fiscal year.

G. **Improvements Other than Buildings –** Modifications that are external to the buildings which includes infrastructure such as sidewalks, outside lighting, steam pipes, tunnels and parking lots.

H. **Library Acquisitions –** Books, films, recordings, periodicals, software.

I. **Movable Equipment –** An item of equipment that is not attached to any part of a building or room-furniture, computer equipment, copiers, office machines, vehicles.

J. **Useful Life –** Estimated period of time asset is expected to perform its intended use.

V. **Policy and Procedures**

A. Cost Guidelines

A capital asset is an item with a useful life of more than one year, a unit value of $3,000 or more, and is not held for resale or investment purposes. There are four types of capital assets; movable equipment, buildings and buildings improvements, improvements other than buildings (infrastructure), and land and land improvements.

Movable Equipment
Movable equipment is an item of equipment that is not attached to any part of a building or room with a unit acquisition cost (including installation costs) of $3,000 or more and a useful life of more than one year. Types of equipment include computer equipment, furniture, office machines, vehicles and scientific equipment, computer software, audio visual equipment, copiers, research electronics for teaching and laboratory use, vehicles and library books. All library books should be capitalized regardless of their unit cost.

Buildings and Building Improvements
Capital projects costs include construction costs of the building structure, including all internal piping, wiring, and permanent fixtures associated with the distribution of utilities

within the building. Costs should also include architectural and engineering fees, inspection fees and permits, bid advertisement expenses, construction financing/interest expense, utilities, and insurance costs incurred during the construction period.

Additional Guidelines for Buildings/Capital Projects:

Demolition Costs – Capitalize as part of a construction project.

Removal costs – Costs of removal of PP&E and PP&E components should be expensed as incurred.

Ordinary Repairs and Maintenance – The costs of normal, recurring, or periodic repairs and maintenance activities should be charged to expense in the period incurred unless the costs are incurred for (a) the acquisition of additional components of PP&E (see above) or (b) the replacement of existing components of PP&E.

Planned Major Maintenance Activities (overhauls and refurbishments) – The total costs (labor, components, supplies) incurred does not represent a separate PP&E asset or component. The individual costs incurred should be evaluated to determine if they represent (a) the acquisition of additional components, (b) the replacement of existing components both of which should be capitalized or normal periodic repairs that should be expensed.

Training costs – Costs of training end-users on the use of new equipment and systems are to be expensed in the period incurred. However, direct costs of training internal personnel for direct involvement in the development, implementation and installation of equipment and/or systems can be capitalized as these costs relate to the installation as opposed to the use of the equipment.

Carpet or tile replacement – The costs of replacing carpeting and/or tile is deemed to be a normal periodic repair activity and should be expensed.

Painting – The cost of painting is deemed to be a normal periodic repair activity and should be expensed, unless it is done in conjunction with the complete renovation of an area.

Asbestos removal – should be expensed in all cases.

Asset disposal – The process by which capital equipment and/or PP&E components are no longer needed or used by its custodial department and is removed from the custodial department Disposals must be identified by each capital equipment item and PP&E component and removed from the records with any remaining net book value, less recoveries, charged to expense.

Buildings acquired by purchase will be capitalized at acquisition cost with the purchase price and associated closing costs allocated between land and buildings on the basis of current appraised values. Additional costs incurred for the purpose of renovating or modifying the building's structure in order to place it in service will also be capitalized. The cost of the building shall include all direct expenses. Construction costs shall include material, external labor, overhead directly related to the construction, building permits and fees, i.e. attorney and architecture. Interest on indebtedness related to the building will be capitalized during the construction process. In order for costs to be capitalized and added to the cost of an existing building, they must meet the following criteria:

1. Expenditures per building for alteration and renovation must be at least $75,000.
2. The improvement must be an attached fixture.
3. The expenditure must increase the life or enhance the utilization of the building.

Improvements Other Than Buildings: Infrastructure

Infrastructure covers improvements related to land but not associated to buildings. Infrastructure expenditures have a life exclusive of the building. The infrastructure category of capital fixed assets includes sidewalks, outside lighting, steam pipes, maintenance tunnels and sewer systems. The cost of the project must be greater than $75,000 for it to be capitalized.

Building Improvement Category Details:

Roads and Landscaping – Includes construction costs of sidewalks, drives, parking lots, outdoor lighting, shrubs and trees, lawns, and ground watering systems for lawns. Also includes surveying, filling, and draining costs if such costs are incurred solely for the installation of the improvement and are not part of an overall land acquisition and construction project. Additions to existing sidewalks, drives, and parking lots should be capitalized in the year completed. Maintenance, partial replacement and resurfacing projects are to be charged to expense during the period in which the work is completed.

Utility Tunnels and Conduits – Includes the cost of converting the utility tunnels as well as any piping installed in the tunnels for the purpose of carrying equipment related to the distribution of utilities. Costs include sanitary and storm sewers and related construction and materials, as well as installation costs and legal and other fees, licenses, surveying, equipment rental, and any other such costs incurred in the construction of the facilities.

Pipeline Energy Systems – Includes the cost of providing utility generation systems within power plant structures as well as facilities and equipment for the transmission of utilities from one location to another. Utility generation systems within a building, such as internal piping and wiring are capitalized as part of the building cost. This category includes the installed cost of equipment used in the generation of heat, power, steam, electricity and cooling, along with the cost of any equipment, switch gear and wiring. Additions or extensions to existing utility generators and distribution capacity will be capitalized in the year such addition is completed.

Recreation Courts, Athletic Fields and Swimming Pools

Includes the initial construction costs of these facilities in addition to surveying, filling and draining costs, if such costs are incurred solely for the installation of the improvement and are not part of an overall land acquisition and construction project.

Land and Land Improvements

Land is capitalized at acquisition cost including assessments, legal and recording fees; realtor and appraisal fees, draining, filling, other site preparation costs; judgments levied from damage suits; demolition (razing) costs of structures on land acquired as building sites. Land acquired by gift will be capitalized at Fair Market or Appraised Value at the time of acquisition. The acquisition cost of property, which includes structures not to be razed (torn down), will be allocated between land and buildings based upon appraised values.

Capital land improvements are those items which have a life of their own exclusive of the land or building. The cost of the project must be greater than $75,000 for it to be capitalized. Land improvements are defined as expenditures for improvements to the land, other than buildings or infrastructure, that ready land for its intended use. Examples include site excavation and improvements, removal or reconstruction of others' property; retaining walls; fencing; landscaping.

B. Determining the Cost of Capital Assets

The amount capitalized shall be the net invoice price of the asset plus any direct cost needed to prepare the asset for its intended use. These costs include shipping costs, all costs (excluding internal staff and training costs) associated with installation/preparation and any other direct costs incurred in obtaining the asset.

C. Donations of Capital Assets

Donations of equipment and capital assets are recorded at fair market value as of the date of receipt. Official university gift receipts are issued by the Office of University Advancement. If the equipment or asset is donated by the manufacturer or builder, the fair market value is the published list price of the equipment or asset. If the donated value is more than $5,000 and there is no published list price, an appraisal will be required. The cost of the appraisal shall be an operating expense of the university, unless paid by the donor. This appraisal is for university accounting valuation only – all donors are to be advised that it is their responsibility to obtain a qualified appraisal for their personal tax use. [Reference policy: 800-001 *Gift Acceptance and Administration*.]

D. Leased Equipment and Buildings

Leased equipment with a useful life of more than one year must be capitalized (recorded as assets) and the lease meets any of the following four criteria as a capital lease:

1. The lease transfers ownership of the property.
2. The lease contains a bargain purchase option (bargain being lower than expected fair value)
3. The lease term is at least 75% or more of the estimated economic life of the property
4. The present value of the minimum payments equals or exceeds 90% of the fair value of the property.

All questions about lease accounting should be directed to the Office of the Controller who shall make the final determination of the proper accounting treatment.

E. Capitalization of Software

Application software purchases with a computer package will be capitalized as part of the initial cost of the computer. Application software is canned programs that offer special functions. A computer package is a purchase of the main computer central processing unit and could include monitor, keyboard, and mouse. Application software shall be capitalized as a separate asset if it has a life of greater than one year.

Software Category Details:

Computer Software, Hardware and Related Components: Computer software includes net invoice cost and any related consulting and/or training costs associated with the initial software implementation. Internally developed software costs are expensed during the period incurred. Computer hardware and related components include net invoice cost plus freight and installation charges. Components include internal drives, processors, memory upgrades, key boards, and other items purchased as components of a larger system are subject to capitalization as determined by the Controller Office.

F. Library Acquisitions

All catalogued library acquisitions will be capitalized. There is no limitation as to the total cost spent per unit. Library acquisitions include library books, films, recordings, monographs, serials, and software.

G. Asset Tags

All fixed assets with a useful life of 1 (one) year or more and unit value of $3,000 or more will be identified and tracked in the University's Fixed Asset system. Central Receiving will attach a pre-coded tag to each asset identifying it as "Property of Howard University." Additional items will be tracked for insurance and property management purposes using pre-coded tags. [Reference Controllable Assets in Section IV.]

H. Fixed Asset Inventory/Accounting for Asset Inventory

To ensure that all capitalized assets have been properly recorded and tracked, Howard University will conduct an inventory of all fixed assets and reconcile the results of the inventory with University Accounting and Property Management records. The inventory shall be conducted at least every other fiscal year.

Since all fixed assets are tagged when they are acquired to help the university track their locations, it is imperative that the Property Administrator’s Office and the Controller’s Office are advised of their movement or disposal by the department head or his or her designee. Until these offices are properly notified of a fixed asset's disposal or movement the department may be held accountable for the first $1,000 of university funds invested in that asset.

The timely and accurate reporting of asset disposals (along with any salvage proceeds) and moves will help ensure the accuracy of university's accounting records and reduce departmental time in reconciling and reviewing exceptions generated from the physical inventory. Additionally, timely depositing of sale or salvage proceeds is required. Timely deposit of proceeds is defined as within one business day of receipt.

Any moves within a building, between buildings or to/from temporary or permanent storage are to be reported to the Central Receiving office. In addition, if one department transfers an asset to another without the equipment physically moving from one room to another, the transfer must also be reported.

I. Grant Funded Equipment

In situations where grant funds, whether private or government, are used to purchase equipment, policies of tagging and inventorying the equipment are the same as for assets purchased with university funds. University inventory records will reflect the funding agency so that internally and externally funded equipment can be identified.

In situations in which a faculty member comes to the university from another institution in the middle of one or more grants and brings with him/her equipment purchased by the related grant(s), a summary of the specific equipment must be provided to the RAS office to allow for proper inventory of the equipment. If a faculty member leaves the university in the middle of one or more grants and takes equipment with him/her to the new institution, a summary must be provided to RAS for the same reasons. This summary is required to be submitted before university property is removed from university premises. RAS will provide the new institution with an official listing of grant funded equipment the faculty member is bringing. If an asset purchased with grant funds is to be transferred or retired, RAS will contact the granting agency, if necessary, to determine the appropriate procedure to dispose of the asset(s) at the time the grant is closed.

J. Group Purchases during Construction of a New Building

Equipment or furniture purchased in conjunction with a building renovation, a new program or clinic, but not having a unit cost of $5,000 or more will be capitalized as a group purchase and depreciated over the relevant asset class life, such as furniture and equipment over 5 years.

K. Depreciation Conventions and Guidelines

All depreciation and amortization calculations should use the "straight line" method. The addition of an asset will be recorded at the date of acquisition. Depreciation for the first year of services will be recorded as if the asset had been in service for one half year. In the event of a disposal of an asset, depreciation on that asset will be recorded for the fiscal year of the asset's disposal as if the asset were in service for the entire fiscal year. The calculation of any gain or loss on disposal will include the effect of the depreciation for the year of disposal. Land is not depreciated.

L. Asset Categories and Accounting Treatment

Asset Category	Asset	Accounting Treatment	Depreciation Method	Depreciation Period*
Real Property	Buildings, purchased or constructed	Capitalized	Straight-line	5 to 40 years
	General Construction a. Foundation walls b. Interior foundations c. Slab on ground d. Framing & external walls e. Structured floor	Capitalized as part of building cost	Straight-line	5 to 40 years

Asset Category	Asset	Accounting Treatment	Depreciation Method	Depreciation Period*
Real Property	f. Architect fees g. Legal expenses h. Permits and other required fees			
	Site Preparation a. Clearing b. Grading c. Installing public utilities	Capitalized as part of building cost	Straight-line	5 to 40 years
	Roof & Drainage a. Roof coverage materials b. Roof drainage	Capitalized as part of building cost	Straight-line	5 to 40 years
	Interior Construction a. Floor finish b. Carpeting c. Ceiling Finish d. Wall partition material & finishes	Capitalized as part of building cost	Straight-line	5 to 40 years
	Plumbing a. General plumbing b. Sinks, Sinks, toilets, drinking fountains, bathtubs, showers, urinals, etc.	Capitalized as part of building cost	Straight-line	5 to 40 years
Real Property	Heating, Ventilation & Air Conditioning a. Furnace b. Boiler c. Rooftop packaged units d. Central cooling systems	Capitalized as part of building cost	Straight-line	5 to 40 years
	Electric a. Wiring b. Lighting	Capitalized as part of building cost	Straight-line	5 to 40 years
	Fire Protection, Life Safety and Communications a. Sprinkler system b. Fire alarm & fire detection systems c. Emergency generators d. Intrusion alarm systems e. Electric doors f. Fire escapes g. Public address systems h. Communications Cabling	Capitalized as part of building cost	Straight-line	5 to 40 years

Asset Category	Asset	Accounting Treatment	Depreciation Method	Depreciation Period*
	(telecommunications and computing)			
	Elevators	Capitalized as part of building cost	Straight-line	5 to 40 years
Real Property	Building Improvements a. Replacement Roofs b. Replacement Windows c. Major renovations and leasehold improvements	Capitalized as part of building cost	Straight-line	5 to 40 years
	Improvements Other Than Buildings a. Roads and Landscaping b. Utility Tunnels and Conduits c. Pipeline Energy System d. Recreation Courts, Athletic Fields and Swimming Pools e. Land Improvements	Capitalized as part of building cost	Straight-line	5 to 40 years
	Construction in Progress	Depreciation does not begin until asset is placed in service.		
Institutional Personal Property (3 to 20 years)	Furniture & Equipment a. Furnishings b. Major Equipment c. Audio Visual Equipment d. Copiers	Capitalized	Straight-line	5 years
	Vehicles a. Trucks, Buses and Cargo Vehicles b. Autos, Vans and Passenger Vehicles	Capitalized	Straight-line	5 years
	All furnishings and equipment not specifically defined in other classifications	Capitalized	Straight-line	5 years
Computer Systems (3 to 10 years)	Standard Computer Software, Hardware & Related Accessories a. Desktop operating systems b. Laptops	Capitalized	Straight-line	5 years

Asset Category	Asset	Accounting Treatment	Depreciation Method	Depreciation Period*
Computer Systems (3 to 10 years)	Major Computer Systems: 10 years a. Systems with substantial implementation effort	Capitalized	Straight-line	10 years
	Systems in Progress	Depreciation does not begin until placed into service		
Library Acquisitions	Does include serials and periodicals	Capitalized	Straight-line	10 years

All useful life determinations are subject to approval by the Controller's office.

M. Controllable Assets

Assets that have a unit value less than $3,000 but with a useful life of more than one year that are tracked for control purposes. These items are tagged and added to inventory as non-capitalized/controllable assets but are not capitalized in the accounting records. Examples include most desk top computers, laptop computers, handheld devices, chairs, desk, calculators, printers, office machines, etc. For accounting purposes, these items are expensed and not depreciated.

VI. Sanctions

Failure to follow this policy or any other approved University policy may result in disciplinary action, including termination of employment.

VII. Website Address

www.howard.edu/policies

Also reference policy: 800-001 *Gift Acceptance and Administration.*