State System of Higher Education
Financial Accounting Policy 2002-01

Subject:	Capitalization of Fixed Assets		
Authorized By:	Robert E. Myers, Interim Vice Chancellor for Finance and Administration	**Effective Date:**	Fiscal Year beginning July 1, 2001

A. Asset Capitalization

Equipment, furniture, software, buildings, and improvements with a cost **in excess of $5,000 and an estimated useful life of two years or more** should be capitalized at cost. All university owned land should be capitalized. Library books should be capitalized as prescribed in Section C. of this policy. All capitalized assets must be university owned.

1. Annual repair and maintenance expenditures normally are not considered capital improvements and should not be capitalized unless they add to the value of the property or materially prolong its useful life.

2. All costs associated with placing an asset in service, including freight, installation costs, site preparation costs, alterations, and professional fees should be included in the capitalized value. If university employees, such as engineers, carpenters, and electricians, contribute to the completion of a capital project, the associated salaries, wages, benefits, and other costs should be included in the capitalized value.

3. Interest expense on capital debt incurred during the construction or renovation of an asset should be included in the capitalized value in accordance with Generally Accepted Accounting Principles (GAAP). The interest capitalization period begins with the first expenditure for the asset, except for projects financed by the proceeds of tax-exempt debt restricted to the specific projects, in which case interest is capitalized from the date of borrowing. The interest capitalization period ends when the asset is substantially complete and ready for its intended use as evidenced by a final inspection date or occupancy date.

4. Construction in progress for capital projects should be capitalized at the end of each fiscal year. Construction in progress is not depreciated. When the capital project is completed and the asset is placed in service, the construction in progress account is replaced with an asset such as building, improvements, etc., and depreciation should begin as prescribed in Section B. of this policy.

5. Capital leases should be recorded as assets along with the corresponding liability in accordance with GAAP.

6. Land and buildings acquired or constructed prior to June 30, 1983, are owned by the Commonwealth of Pennsylvania and made available to the universities. Since the State System does not have title to these assets, universities should not record the assets on their books. Buildings acquired or constructed subsequent to July 1, 1983, and funded by the university should be recorded at cost and capitalized as appropriate.

7. University funded costs of improvements to Commonwealth owned buildings or grounds should be recorded at cost and capitalized as appropriate.

8. Furniture and equipment funded through capital appropriations should be recorded by the university and capitalized as appropriate.

9. Assets acquired by gift with a fair market value in excess of $5,000 and an estimated useful life of two years or more should be capitalized at the estimated fair market value at the time of acquisition plus costs directly attributed to the acquisition. If the fair market value is not readily available, the university must make a good faith effort to research and determine the value of the property.

B. Depreciation

All capitalized assets, with the exception of land and inexhaustible collections, should be depreciated using the **straight-line method**. When appropriate, salvage value should be assigned. Section G. provides suggested useful lives of common university assets for depreciation purposes. If available, a more reliable estimate of useful life may be substituted.

C. Library Books

Annual library book purchases should be capitalized at cost and depreciated as a group, even if the total of the purchase is less than $5,000. Periodicals, subscriptions, microfiche, compact discs, videos, and similar items should be expensed as incurred. Library books should be depreciated over 10 years with no salvage value. When library books are disposed of, it is assumed that the oldest volumes are disposed of first and are fully depreciated. The calculation for determining the value of disposals is as follows: *# volumes disposed X average cumulative cost per volume for the last 10 years = cost of disposals*.

D. Annual Reconciliation of Fixed Assets to General Ledger

All capitalized assets must be tagged with a fixed asset number and included on a fixed asset subsidiary ledger (e.g., on the fixed assets module of the university's administrative information system). The subsidiary ledger should separately list each capitalized asset with its associated fixed asset number, the date the asset was purchased, custodian, the cost of the asset, the cost account, current year depreciation, accumulated depreciation to date, salvage value, and date of disposal. Universities must annually reconcile the activity reported on the subsidiary ledger with the amounts reported on the general ledger.

E. Physical Inventory

1. Universities should conduct a physical inventory of capitalized assets at least every two years.

2. At the close of the inventory process, adjustments should be made to the fixed asset subsidiary ledger and general ledger for assets that have been taken out of service, lost, stolen, or otherwise disposed.

3. Each university should develop a policy for equipment taken off campus. At a minimum, assets should not leave campus without proper authorization forms. Note that some

assets purchased with grant money may not be removed from campus or otherwise disposed.

F. Accounting for Capital Assets

In order to provide consistency in the accounting of and budgeting for capital expenditures, universities should initially record an expense for capital assets that are purchased from Current, Restricted, Loan, and Endowment funds. These expenses then should be reversed on the FINRPT in the Plant Fund using Minor Object 799, and the corresponding asset should be recorded

1. The following capital expenditures should be recorded in the Current Fund as expenses in Major Object Code 700:
   a. Library books at full cost.
   b. Equipment purchases to support the institution's educational and general activities.

2. The following capital expenditures should be recorded directly in the Plant Funds as capital assets. Universities may, but are not required to, initially record the expenditures as expenses in the Plant Fund in Major Object Code 700; these expenses must then be reversed, and the corresponding asset recorded, in the Plant fund.
   a. Expenditures for which the source of funds was recorded as revenue in or transferred to the Plant Funds.
   b. Major projects for physical plant additions, upgrades, renovations, etc., regardless of whether completed in the current or a future fiscal year.

3. Current year depreciation expense must be recorded in the Plant Funds under Minor Object 676, *Depreciation*.

4. Gain or loss on disposal of capital assets should be recorded in the Plant Funds under Minor Object 455, *Gain/Loss on Disposal of Assets*.

5. Capitalized assets must be reported on the Balance Sheet of the FINRPT by major asset classification, i.e., Land, Buildings, Building improvements, Improvements other than buildings, Equipment and furnishings, Library books, and Construction in progress.

6. Fully depreciated assets should not be written off until disposed.

G. Estimated Useful Lives of Common Fixed Asset Classifications

Following are suggested useful lives of common university assets for depreciation purposes.

Estimated Useful Lives of Common Fixed Asset Classifications	
Description	**Useful Life**
Land	Not depreciated
Land Improvements/Infrastructure	20
Buildings	40
Building Improvements	20
Furniture and Furnishings	10
Equipment	3 - 7
Appliances	5
Vehicles and Light Maintenance Equipment	5
Heavy Maintenance Equipment	7
Capital Leases	Variable
Leasehold Improvements	Variable
Works of Art and Historical Treasures	Variable
Library Books	10

1. **Land** is not depreciated. Cost includes negotiated purchase price, broker's commissions, legal fees, title fees, recording fees, escrow fees, surveying fees, any existing unpaid taxes or other liens on the property assumed by the buyer and all other costs related to the acquisition.

2. **Land Improvements and Infrastructure** are physical changes in or appurtenances to land that increase the utility of the land (exclusive of structures). Land improvements include landscaping, paving, roads, curbing, sidewalks, fences, retaining walls, sewers, bridges, drainage facilities, running tracks, basketball courts, tennis courts, artificial turf, parking lots, outdoor lighting and utility distribution systems.

3. **Buildings** are any structures erected to stand more or less permanently and designed for human use and occupancy or as shelter for animals or goods. Each structure is comprised of components such as framing, interior finish, roof structure and cover, and building service systems (plumbing, sewerage, heating, ventilating, air conditioning, lighting, power, elevators, fire protection, public address systems, emergency power systems) which are included in the asset cost. A purchase involving the acquisition of both land and buildings requires that the cost be allocated between the assets.

4. **Building Improvements** represent improvements or enhancements which extend the useful life of the building. This includes additions, roof replacement, installation of elevators, replacement of central air conditioning or heating systems, installation of fire protection systems, replacement of plumbing and wiring, and other major renovations.

Work to maintain buildings and building improvements in existing condition, such as painting or repairs, should be expensed.

5. **Furniture and Furnishings** includes such items as desks, workstations, cabinetry, safes, tables, carpeting, draperies, showcases, and other fixtures.

6. **Equipment and Software** includes such items as computers and related equipment, printers, software, copiers, video equipment, audio equipment, telephone equipment, scientific equipment, clinical equipment, laboratory equipment, printing presses, and postage meters.

7. **Appliances** includes stoves, ovens, refrigerators, freezers, washing machines, dishwashers, dryers, microwave ovens, air conditioners (not part of a system), and vending machines.

8. **Vehicles and Light Maintenance Equipment** includes cars, vans, light trucks, motorcycles, jeeps, boats, buses, mobile homes, and campers. Also included are lawn mowers, lawn tractors, snow blowers, power tools, generators, forklifts, machine shop equipment, drilling equipment, custodial equipment, and small motorized vehicles.

9. **Heavy Maintenance Equipment** includes heavy trucks, bulldozers, backhoes, large tractors, concrete mixers, large generators, and trailers.

10. **Capitalized Leases** are leases that transfer substantially all the benefits and risks inherent in ownership of the property to the lessee, who accounts for the lease as an acquisition of an asset and a liability.

11. **Leasehold Improvements** are capitalizable improvements and extraordinary repairs made to fixed assets recorded as operating leases (leases that do not meet capital lease criteria).

12. **Works of Art, Historical Treasures,** and similar assets, which are:
    a. held for public exhibition, education, or research in furtherance of public service rather than financial gain,
    b. protected, kept unencumbered, care for, and preserved, and
    c. subject to organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections,

    are defined as “collections” and are not required to be capitalized or depreciated. Works of art, historical treasures, and similar assets that do not meet the above definition are not considered to be collections and must be capitalized.

13. **Library Books** should be capitalized as a group at their purchase price plus transportation and any incidental costs. Periodicals, subscriptions, microfiche, compact discs, videos, and similar items should be expensed as incurred. Rare books that are considered “collections” similar to works of art and historical treasures should follow the guidance stated in item 13. above.

H. Definitions Frequently Associated with Capitalized Assets

1. **Asset Cost.** The purchase cost plus all normal expenditures of readying an asset for use. Unnecessary expenditures that do not add to the utility of the asset should be charged to expense.

2. **Capitalization.** Recording an expenditure that may benefit a future period as an asset rather than treating the expenditure as an expense of the period in which it occurs.

3. **Construction in Progress.** The cost of ongoing construction of an asset that satisfies the established criteria and definitions of a capital asset. It is recorded as a capital asset but is not depreciated until construction is completed. At that time, the appropriate fixed asset account is increased and construction in progress is decreased.

4. **Depreciation.** An expense that results from the process of allocating the cost of certain long-lived assets to the periods of benefit (i.e., the useful life).

5. **Expense.** An amount which reflects the using up of an asset in connection with the production of revenue or the carrying out of other activities which are a part of the entity's operation.

6. **Extraordinary Repairs.** An overhaul of a substantial portion of a fixed asset to correct defects due to workmanship, abnormal deterioration, neglect, abuse or an act of God (an unusual and not-normally-scheduled repair program that results in substantially increasing the utility or useful life of the asset).

7. **Fixed Assets.** Tangible property to be used over a long period of time that have a significant value. These assets are not intentionally acquired for resale, nor are they readily convertible to cash.

8. **Fixed Asset Classifications.** Categories established for depreciation purposes based upon similar characteristics and useful lives.

9. **Salvage Value.** An estimate of the amount that will be realized at the end of the useful life of a depreciable asset. Frequently, depreciable assets have little or no salvage value at the end of their estimated useful life and, if immaterial, the amount may be ignored.

10. **Straight-Line Method.** A depreciation method based on the passage of time, recognizing equal periodic charges over the life of the asset. The depreciation calculation is as follows: (*Cost - salvage value)/estimated useful life=annual depreciation expense*.

11. **Useful Life.** The time factor associated with the limited usefulness of an asset, including both physical factors (e.g., wear and tear, deterioration and decay, and damage or destruction) and functional factors (e.g., inadequacy and obsolescence).