

Capital Asset Guidelines Update

Presented by

Ben M. Riden, Jr., CPA, CGFM

Christy Todd



Capital Assets Defined

Tangible or Intangible item(s) with the following characteristics:

- Expected Useful life greater than 1 year

- Acquisition Cost exceeds capitalization threshold

 - If gift or transfer, capitalization value would be fair value at date of transaction.

- Not part of normal business operation inventory for resale

Capital assets may be acquired via purchase, donation, construction or transfer.



Types of Capital Assets

Land and Land Improvements

Building and Building Improvements

Facilities and Other Improvements

Equipment (including machinery, furniture, vehicles)

Infrastructure

Capitalized Collections (works of art, historical treasures)

Library Collections

Intangible Assets (including software)

Leased Assets

Construction in Progress



Land and Land Improvements

Land - earth surface that can support structures

Land improvements – Site improvements to ready land for intended use.



Building and Building Improvements

Building



Facilities and Other Improvements

Assets that are built, installed or established to enhance quality or facilitate use of land for a particular purpose.

Examples would be fencing, gates, signs, driveways, parking lots, lighting systems, retaining walls, swimming pools, etc.

Capitalization threshold is \$100,000.

Improvements follow same criteria as that for building.

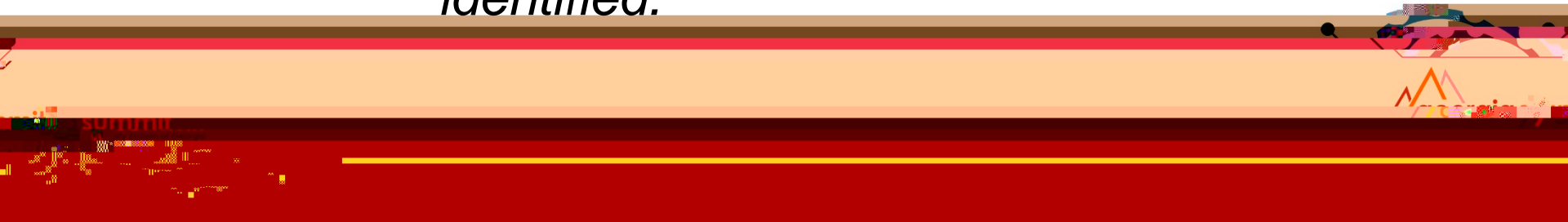


Equipment

Machinery, furniture, farm equipment, vehicles and other personal property, such as printers, computers, audio visual, communication systems, etc.

Capitalization threshold is \$ 5,000.

Note: Costs of extended warranties and maintenance agreements should not be capitalized if costs can be separately identified.



Infrastructure

Long lived assets that are stationary in nature and preserved for use over a long period of time.

Road systems, water systems, drainage systems,



Capitalized Collections

Works of Art and historical treasures which are owned by the institution and :

- Held for public exhibition, education or research

- Protected, cared for and preserved

- If any items of collection are sold, proceeds must be used to acquire other items for collection.

May be exhaustible or inexhaustible

- If exhaustible, subject to depreciation

- If inexhaustible, not subject to depreciation



Library Collections (Books and Materials)

Library books are literary compositions that are generally bound into separate volumes and copyrighted.

Library reference materials are information sources, such as journals periodicals, manuscripts, maps, audio/visual media, other learning based documents, etc.

Per State Accounting Office policy, Library collections (books and reference materials) that exceed \$100,000 in aggregate must be capitalized.

Since all of USG institutions have collections that exceed \$100,000, all yearly purchases of books and reference materials must be capitalized.

Depreciation is on total collection and based on 10 year useful life.



Intangible Assets

Intangible assets possess the following characteristics:

- Lacks physical substance
- Non-financial in nature
- Useful life extends beyond 1 year.

Easements, water rights, timber rights, trademarks, computer software.
May be purchased, licensed or internally generated.

Capitalization thresholds

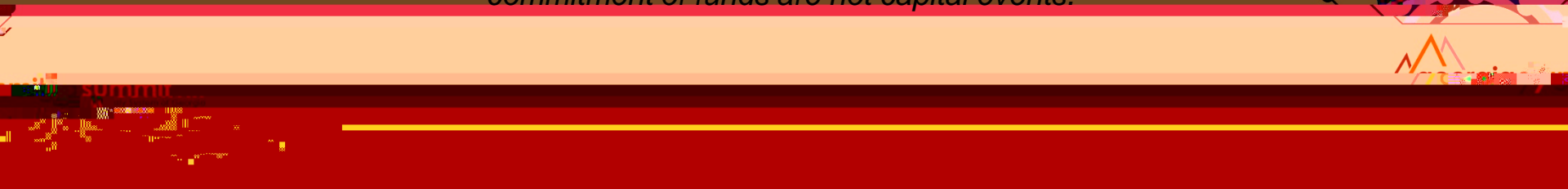
- \$ 1,000,000 for computer software.
- \$ 100,000 for all other intangible assets.

Useful lives:

- Computer Software – 10 years
- Other Intangible Assets – 20 years

Note: State Accounting Office has determined that E-books, software licenses and other electronic reference materials whereby access to databases is obtained through multi-year contracts (or a one time cost for permanently accessible data) should be capitalized as software and not library books or materials.

Software licenses/access rights paid on annual basis with no multi-year commitment of funds are not capital events.



Leased Assets

Land, buildings, equipment and/or other assets under capital lease should be capitalized if **any** of the 4 following criteria apply:

- Lease transfers ownership to institution

- Lease contains bargain purchase option

- Lease term exceeds 75% of useful life of asset being leased

 - When dealing with 1 year leases with multiple renewable options, one should use full lease term to apply 75% criteria.

- Present value of lease payments equal at least 90% of fair value of leased property.

Under currently existing accounting standards, leases that do not meet any of the 4 criteria will be considered operating leases.



Construction in Progress (CIP)



Capital Asset Activities

Acquisition Costs/Value of Capital Assets

Sale/Disposition of Capital Assets

Exchange/Transfer of Capital Assets

Capital Asset Impairments

Assets Recorded without Depreciation

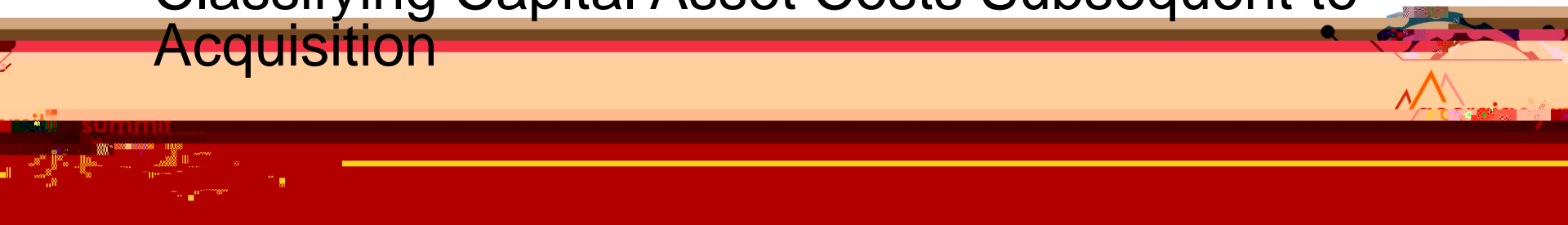
Fully Depreciated Capital Assets

Reassessing Lives of Capital Assets

Component Unit Depreciation

Depreciation Reserves

Classifying Capital Asset Costs Subsequent to Acquisition



Acquisition Cost/Value of Capital Asset

How is acquisition cost of capital asset determined?

Acquisition Cost(s) commonly include:

Vendor's invoice+initial installation costs+modifications and attachments+freight and transportation+site preparation costs+professional fees+applicable taxes (if any).

Other costs could be applicable depending on capital asset type.



Sale/Disposal of Capital Assets

If assets are sold outside of the State of Georgia reporting entity, a gain or loss must be recognized for the difference between the sales price and net book value (cost less accumulated depreciation) of asset.

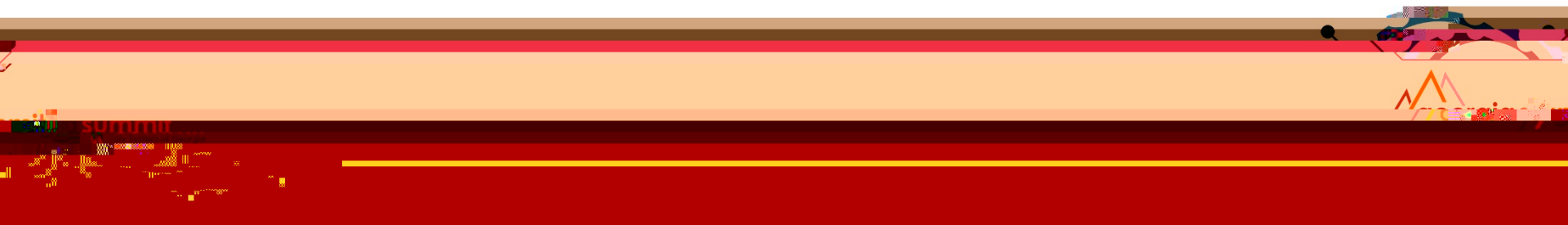
If an asset is otherwise disposed of (theft, loss, etc.), a loss on disposal will be recorded which would be equal to the net book value of the asset removed.

If asset is fully depreciated there would be no gain or loss.

If asset is fully depreciated with a residual value remaining, the loss would be the amount of the residual value.

Note: The Surplus Properties division of the State's Department of Administrative Services provides disposal instructions for State owned assets.





Capital Asset Impairments

An impairment is a significant and unexpected decline in service utility of a capital asset.

Impairments must be evaluated to determine if permanent or temporary.

If impairment is permanent, asset carrying value must be reduced by the amount of the impairment loss, if loss exceeds \$ 100,000 or if insurance recoveries exceed \$ 100,000.

The State Accounting Office (SAO) requires each State entity to report impairments. Therefore, please notify Office of Fiscal Affairs of any potential impairments within 20 days of discovery. Each institution must also report results of impairment testing and any permanent loss/gain associated with recording impairment.

Quiz

If carrying value of asset was \$700,000 at date of impairment and the impairment test revealed a permanent loss in utility of \$ 75,000, should the capital asset be written down by the calculated asset impairment loss? The institution also received \$ 150,000 in insurance recoveries associated with this loss.

Assets Recorded without Depreciation

Assets Held In Trust

Assets held on behalf of non-state entity (such as family art collections or federal government assets loaned to institution) that are in temporary control of institution should be accounted for on institution's accounting records, but they should be recorded at 0.00 value, not subject to depreciation.

Controlled Assets

Assets owned by the institution that must be secured and tracked (usually for insurance purposes). This includes:

- Moveable personal property items with acquisition costs of \$3,000 or more

- All weapons and firearms, regardless of value

- Any other asset items that management may determine high risk and necessary to be tracked.



Fully Depreciated Capital Assets

Should fully depreciated capital assets that are still in service be recapitalized or removed from accounting records?

No and No

So, what do we do?



Fully Depreciated Capital Assets

Can't really recapitalize because original cost of a capital asset cannot change.



Reassessing life of Capital Assets

Example

\$5,000,000 classroom building has 40 year life and has been in service for 30 years. Institution plans to keep the building in service for an additional 10 years, thus remaining useful life is 20 years. Depreciation is straight line. Depreciation expense for 30 years was \$112,500 per year totaling \$3,375,000. Salvage value calculated at 10% or \$500,000.

The accounting would be as follows:

Asset value	5,000,000
Less salvage value	500,000
Less Accumulated Dep	<u>3,375,000</u>
Revised depreciable value	1,125,000

Revised Depreciation expense $1,125,000/20= 56,250$ per year for revised life of asset

Since this is done prospectively per GASB 62 as a Change in Accounting Estimate, Accumulated Depreciation is not affected and the asset is not restated.



Component Unit Depreciation

New Section in BPM

When using component unit basis approach, depreciation should be based on useful life of each component

Intention is to provide more accurate basis for measuring annual depreciation for multi functional buildings, such as Research Buildings.

Generally components are broken down into 4 general categories:

- Building shell

- Building finished

- Building Service System(s)

- Fixed Equipment

Useful lives are by category. Individual Components may not have useful lives which exceed useful life of primary structure (shell).



Depreciation Reserves

Board policy requires that institutions must establish a Renewals and Replacements (R&R) reserve for all university owned auxiliary projects.

Each year an amount equal to depreciation expense for the related capital asset must be added to the R&R reserve.

Why do we do this?



Capital Asset Costs Subsequent to Acquisition

Generally 4 types of costs incurred for capital assets subsequent to original acquisition.

Additions

Improvements

Replacements

Repairs and Maintenance

Should these costs be capitalized or expensed?



Replacements

Replacements allow the asset to maintain existing level of service.

Generally would not be capitalized if replacement does not increase future service level or the value of the asset.

Examples

Replacing carpet.

Replacing old boiler with new boiler with similar performance capabilities

In the example above, if the boiler was replaced with a new boiler that increased future service capacity/potential of asset, would you capitalize the new boiler?



Repairs and Maintenance

Expenditures designed to maintain assets in good operating condition. Generally periodic repairs and preventive maintenance to maintain normal operating utility of an asset.

Expenditures of this nature would not be capitalized and would be expensed as incurred.

Examples

- Plumbing and electrical repairs

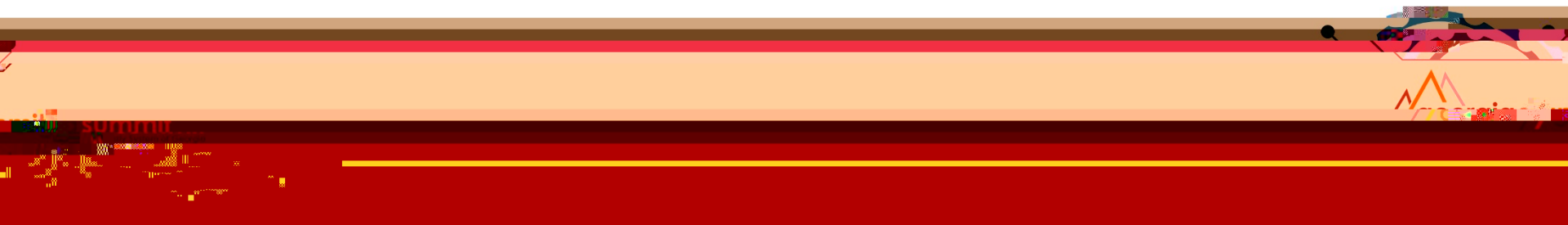
- Repainting and other maintenance type expenses



Capitalized Cost or Operating Expense

Example 1

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Capitalized Cost or Operating Expense



Extending Useful Life in PeopleSoft Financials

- Useful Life Extensions are done by performing a Book Adjustment (Business Process AM.020.060)
- Calculation Type
 - Life to Date
 - Recalculates the depreciation from the inception of the asset's useful life
 - Remaining Value
 - Calculates the remaining depreciation over the remainder of the asset's useful life



Adding Cost in PeopleSoft using Cost Adjustment

- Cost Adjustments add value to an existing asset id (Business Process AM.020.054)
- The Transaction Date drives the date that the adjustment begins depreciating.

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Adding Costs in PeopleSoft using Child Assets

- Child Assets can be used to link asset costs to a Parent asset (Business Process AM.020.040)
- Useful Life of Child Asset
 - The Child Asset is separate so it has its own profile id which determines its useful life.
 - However, you can choose to use the Parent's useful life



Questions and Useful Links

Business Procedures Manual:

http://www.usg.edu/business_procedures_manual/

GaFirst Business Processes:

http://www.usg.edu/gafirst-fin/documentation/category/asset_management

