

Subject: Equipment Capitalization and Fabricated Equipment	Author: David Adams
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CAPITALIZATION

The provisions of this section deal with Land, Land Improvements, Leasehold Improvements, Buildings, Infrastructure, Information Systems, Equipment, Patents and Library Books purchased, constructed /developed internally or donated to the University of Louisville and its affiliated and related corporations, herein after referred to as the University. An asset, as described above, acquired but not used in the operation of the University should be treated as an investment rather than a capitalized asset.

General:

- A) Land, Land Improvements, Leasehold Improvements, Buildings, Infrastructure, Information Systems, Equipment and Patents whether constructed, (developed in the case of software) or purchased, will be capitalized in the financial records of the University at cost.
- B) Assets received as a gift will be capitalized in the financial records of the University at fair market value on the date of the gift.
- C) Costs incurred for additions, improvements or betterment shall be capitalized in the financial records of the University at cost.
- D) Maintenance, repair costs will not be capitalized.
- E) Library books and periodicals purchased and approved by the University Librarian will be capitalized in the financial records of the University of Louisville and its affiliated corporations at cost or, if donated, at fair market value on the date of the gift.

Definitions

- A) Land - The cost of land includes the amount paid for the land, costs incidental to the acquisition of land and expenses incurred in preparing the land for use. When land has been purchased for the purpose of constructing a building, all costs incurred up to the excavation for the new building are considered land costs. Costs incidental to the acquisition of land are legal expenses for perfection of title, fees to brokers and so forth. The expenses of preparing land for use include, among others, the cost of demolishing buildings (less salvage value), the cost of relocating structures and expenses connected with clearing land.

B) Land Improvements - The cost of land improvements includes amounts to be capitalized for landscaping and outdoor recreational fields having a cost in excess of \$100,000.

C) Leasehold Improvements - Cost of Additions, Improvements or Betterment made to leased property where the University is classified as lessee.

D) Buildings - Costs of foundations, walls, roof and frame which permanently attach to or become a part of the building and which cannot be removed without impairing the existing structure. Also include the cost of parking lots and sidewalk modifications necessary to accommodate the structure.

E) Infrastructure - Long-lived assets costing in excess of \$100,000 such as roads, bridges, utility tunnels, and network backbones.

F) Information Systems - Include software either purchased, received by gift or developed internally with a cost exceeding \$100,000. Include the cost of prepaid maintenance contracts when bundled with the cost of the asset.

G) Equipment - An item of movable tangible personal property, which has a cost or value of \$5,000 or more, a useful life of more than one year and which retains its identity as a separate and identifiable item. Include in cost the amount paid for freight and prepaid maintenance contracts when bundled with the cost of the asset.

H) Additions, Improvements or Betterment - Additions, replacements or alterations, which materially increase or improve services or extend the useful life of an asset, are considered additions, improvements or betterment. In the case of renovation work, only projects expected to cost \$100,000 or more and meet one of the following conditions are considered improvements or betterment.

The project extends the useful life of the building beyond what was originally scheduled.

The project substantially changes the use or purpose of the original space.

The project expands the total square footage of the building.

The book value of a renovated building will be reduced by the cost of the components being replaced if such costs can be easily ascertained.

I) Repairs and Maintenance - Expenditures incurred to maintain the asset in normal operating condition, but which do not materially add to the usefulness or life of the asset are considered repairs and maintenance. Such costs are charged to current operational expense.

J) Library Collections - The following expenditures for the libraries regardless of cost, with the approval of the University Librarian, will be classified as capital assets:

Monographs, Serials, Binding, Thesis Costs, Printed Music, Photographs,
Microforms, Supplemental Updates, Loose Leaf, Reports & Cases, Code & Sessions,
Audio Recordings, Video Recordings, Electronic Format Monographs, Electronic
Format Serials and Interlibrary Loans.

Books, works of art and other historical treasures that are designated by the librarian as rare or historical collections, are capitalized at cost or, if a gift, at the fair market value on the date of the gift.

To be classified as works of art and historical treasure the individual asset or collection must meet the following criteria:

- 1) Held for public exhibition, education, or research in furtherance of public service, rather than financial gain;
- 2) Protected, kept unencumbered, cared for and preserved; and
- 3) Subject to an organizational policy that requires the proceeds from sale of the collection be held for the purchase of additional collection items

K) Patents - Includes the cost to obtain the patent and subsequent legal cost to defend. This shall be capitalized in the records of the University when the total cost exceeds \$5,000. Responsibility for tracking the cost of the University's patent by agreement with the Controller's Office lie with the Office of Technology Development.

FABRICATED EQUIPMENT

When a department identifies the need for fabricated equipment and the aggregate value of the individual components are greater than \$5,000, the completed piece of equipment is subject to the University's equipment capitalization policy.

It is the department's responsibility to properly record all transactions involving the completed piece of fabricated equipment. Further, it is the department's responsibility to notify Inventory Control via mini-form when the fabricated equipment is completed. The purchasing form "Component Purchases Resulting in Equipment in Excess of \$1,000" is located at the following address:

<http://louisville.edu/purchasing/forms>

The department will purchase the individual components and will maintain a record of all of these components. These records will consist of the following:

Purchase Order Number(s) Vendor(s) Description (of the item(s)) , and Cost (of each item(s)).

All items purchased must be charged to a unique code (544210) established for fabricated equipment. This code has been created exclusively for equipment that will be fabricated from parts rather than purchased as a complete unit. This code will not be used for adding parts to existing equipment for the purpose of upgrading or prolonging the life of the existing equipment. (See Additions, Improvements and Betterment - Equipment Capitalization Policy)

Once the piece of equipment has been completed, the department will submit the Fabricated Equipment Mini-form to Inventory Control. Inventory Control will follow up with the department and assign an Inventory Control Barcode Tag Number. Inventory control will prepare an addition to enter the total dollar amount into asset management and will advise the Plant Fund Accountant within the Controller's Office of the addition, if the item is considered to be a capital asset. The Plant Fund Accountant will prepare the following journal entry.

Debit 199997 Contra Asset Account
Credit 544210 Fabricated Equipment Expense

The fabricated equipment code will not generate an overhead charge on a grant program so that the overhead will be properly recorded as the component pieces are purchased.

ADDITIONS TO EQUIPMENT

Additions to equipment, as defined in the Controller's Office capitalization policy should be charged to the appropriate asset account code. Purchasing will identify additions in the Comments panel of the PO module. The buyer should indicate in this area the asset ID of the asset to receive the addition. On a monthly basis, inventory control will run a query to identify those items to receive a cost adjustment.

CONSTRUCTION IN PROGRESS

Charges including but not limited to architectural fees and contractor invoices must be charged to a unique code established for Construction in Progress. The code is 199993. This code has been created exclusively for the costs of constructing or renovating buildings owned or leased by the University of Louisville and its affiliated corporations and the construction of infrastructure as defined by the University's capitalization policy. In the case of renovation, only those projects classified as additions, improvements or betterment may be charged to construction in progress.

Based upon a report to be made quarterly by the Department of University Planning, Design and Construction to the Controller's Office, the Plant Fund Accountant will identify those projects which are completed. Using Asset Management, the Plant Fund Accountant will retire the asset from Construction in Progress add it to the appropriate asset category (ie: Buildings, Leasehold Improvements, Infrastructure) so that the project is properly recorded as an asset which will be depreciated according to the University's policy for depreciation.

PATENTS

The cost of patents will be charged to code 544217, which is identified as Expenditures for Patent. When total cost exceeds \$5,000 and useful life exceeds one year, based upon a report of patents to be prepared quarterly by the Office of Technology Development, the Plant Fund Accountant will prepare the following journal entry.

Debit	
199997	Accounts Payable Offset
	Credit
544217	Expenditures for Patent

The Plant Fund Accountant will also add the patent to asset management to be depreciated according to the University's policy of depreciation.

DEMOLITION OF BUILDINGS

The Department of University Planning, Design and Construction have responsibility for reporting buildings to be demolished to the Controller's Office. Based upon this report, the Plant Fund Accountant will identify and retire those buildings from the Asset Management system.

DEPRECIATION

Land Improvements, Leasehold Improvements, Buildings, Infrastructure, Information Systems, Equipment, Patents and Library Books will be depreciated using the straight line method recording a full month's depreciation in the month the asset is put into service, over the following useful lives:

Years Useful	Description
	Real Property:
40	Land Improvements
Life of Lease (Or useful life if shorter)	Leasehold Improvement
60	Infrastructure
40	Buildings Improvements
40	Buildings
	Equipment:
15	Art
N/A	Art Collections
5	Audio Visual Equipment
5	Auto
10	Boat
5	Bus
3	Computers
10	Dental Equipment
5	Electric Vehicles
5	Furniture
10	Golf Cart
10	Grounds Equipment
5	Medical Equipment
10	Microscope
15	Music Equipment
5	Office Equipment
5	Postal Equipment
10	Printing Equipment
5	Scientific Equipment
5	Security Equipment
5	Trailer
5	Truck
5	Van
5	Information Systems

18 (or life of the patent)	Patents
	Library Books:
10	In Circulation
N/A	Rare Books and Materials Noncirculating