# UNIVERSITY OF NEBRASKA

# CAPITALIZATION POLICY AND DEFINITIONS

## CAPITALIZATION POLICY AND DEFINITIONS

OVERVIEW

| Asset - Type and Classification | | Expected /Depreciable Life |
|---|---|---|
| I. | Land | |
| II. | Buildings | |
| | A. Buildings and Structures | 50 years |
| III. | Land Improvements | |
| | A. Infrastructure | 30 years |
| | B. Landscaping Improvements | 20 years |
| IV. | Equipment and Chattel Property | |
| | A. All Equipment and Chattel Property Not Specifically Defined in Other Classifications | 2 -10 years |
| | B. Autos, Vans, and Passenger Vehicles | 3 years |
| | C. Trucks, Busses, and Cargo Vehicles | 8 years |
| | D. Computer Mainframe Installation Equipment | 5 years |
| | E. Personal Computers, Modems, Printers, Displays | 3 years |
| | F. Computer Software | 3–5 years |
| | G. Fabricated Equipment Comprised of Components | 2–10 years |
| | H. Livestock | -- |
| | I. Leases | -- |
| V. | Intangible Assets | |
| VI. | Works of Art and Historical Treasures | |
| VII. | Construction Work in Progress | |
| VIII. | Capitalized Interest | |

## I. LAND

Land will be capitalized at acquisition cost including assessments, commissions, legal and recording fees; draining, filling, other site preparation costs; judgments levied from damage suits; and demolition cost of structures on land acquired by building sites. Land acquired by gift will be capitalized at fair value on date of donation. Acquisition cost of property, which includes structures not to be razed, will be allocated between land and buildings based on appraised values.

## II. BUILDINGS

### A. Buildings and Structures

Buildings will be capitalized and depreciated using the straight-line method with an expected life of 50 years except for the University of Nebraska-Lincoln (UNL) campus. UNL has adopted a straight-line, componentized method to depreciate buildings based on an estimated useful life of 25 to 40 years and for the University of Nebraska Medical Center (UNMC) campus has adopted a straight-line, componentized method to depreciate selected research buildings based on an expected life of 25 to 40 years. For buildings which have been added on to or renovated, the un-depreciated value of the original building will be removed from the books. A new asset, consisting of the un-depreciated value of the original building plus the cost of the addition/ renovation would be booked. The new asset will then be depreciated using the straight-line method except for UNL that has adopted a straight-line componentized method. The expected life will be established by assigning the greater of either the remaining years of original life or thirty years, unless a best judgement assessment of a particular project warrants a longer or shorter period of life or if an architectural or engineering recommendation indicates a more appropriate life expectancy.

**1. Acquisition by construction**

Initial capitalization includes initial construction costs of the building structure, including all internal piping, wiring, and permanent fixtures associated with the distribution of utilities within the building. Cost should also include architect fees, inspection fees and permits, bid advertising, and any interest expense, bond discount/(premium) amortization and insurance costs incurred during the construction period (less investment income earned). Excludes costs of landscaping, sidewalks, utility tunnels, or furnishings, which are to be capitalized in other fixed asset accounts. Special purpose machinery and equipment (such as x-ray, sterilizers, presses) installed in the building or structure at the time of construction, which relates to the activity to be conducted in the building or structure, should be capitalized in an equipment asset account rather than the building account. The cost of constructing a building of less than $500,000 should be charged to expense, unless capitalization/reporting is required by bond or lease purchase agreement covenants.

**2. Acquisition by Purchase**

Buildings acquired by outright purchase will be capitalized at acquisition cost with proportionate allocation of the purchase price and associated closing costs allocated to land on the basis of current appraised values. Additional costs incurred for the purpose of renovating or modifying the building structure in order to place it in service will also be capitalized. The cost of purchasing a building of less than $500,000 should be charged to expense, unless capitalization/reporting is required by bond or lease purchase agreement covenants.

3. **Building Additions and Modifications**

Building projects or portions of projects, which should be added to the capitalized value of an existing building, would include the items listed below. However, any project of less than $500,000 for any one building should be charged to expense, unless capitalization/ reporting is required by bond or lease purchase covenants.

a. Building additions including attached ramps, truck docks, fire escapes, and other appurtenances.

b. Improvements requiring modifications of the structure in order to comply with current fire, health, asbestos and safety codes.

c. Improvements undertaken to convert unusable floor space into usable floor space or upgrade the use of floor space (i.e., converting storage areas to office/classroom space).

4. **Major Renovation and Remodeling**

Major renovation and remodeling projects which involve updating a building interior for the purpose of enhancing functionality, and extending the useful life will be capitalized providing:

a. The renovation costs when viewed as a single project exceeds $500,000. (The project will be capitalized even though the renovation may be accomplished by several smaller projects over more than one year.)

b. The cost of the project, when added to the Building Account results in a total capitalized value which does not exceed a current appraised valuation of the building.

c. The project objective and scope includes modernization of the structure as a whole, and not merely a rearrangement of selective office/classroom areas.

d. In the event a renovation project involves significant razing of the existing structure, an estimate of the cost of initial construction which was razed should be removed from the existing building asset valuation.

Special maintenance projects, undertaken primarily to preserve the building or enhance the general appearance should be charged to expense (i.e., new roof, painting, caulking, etc.)

## III. LAND IMPROVEMENTS

Costs to build infrastructure and to improve land owned or used by the University (excluding buildings) will be capitalized as Land Improvements/Infrastructure. It is the policy of the University to capitalize such improvements as outlined below. However, the nature of many improvements (i.e., walks and driveways) are such that it is impractical to inventory such improvements, for the purpose of assuring that the value of improvements, or portions thereof, are removed from the accounts upon abandonment, replacement, or modification. Accordingly, various classes of improvements will be capitalized for a specific period of years, at which time they will be removed from the accounts. Additions to or extensions of existing land improvements or infrastructure will be capitalized in the year such addition or extension is completed. Repair, maintenance, partial replacement, and resurfacing projects should be charged to expense. It shall also be the policy to capitalize all costs in this category, which are incurred in conjunction with a major building project even if the amount is less than stated in the succeeding sections of this policy for various classifications of improvements.

The following classifications of improvements will be capitalized:

**A.** **Landscaping Improvements –** The following is a listing of land improvement examples:

Parking lots, yard lighting, fencing, paths, septic systems, fountains, fencing and gates, bleachers, parking barriers, swimming pools, tennis courts, retaining walls, athletic fields and golf courses. These examples are to be used as a guide in identifying land improvements and are not intended to be all-inclusive. Land improvement projects with a cost under $100,000 should be charged to expense. Current year additions to land improvements will be capitalized for 20 years, after which the costs will be removed from the accounts.

**B.** **Infrastructure** – The following is a listing of infrastructure examples:

Streets/roads/highways, alleys, sidewalks, curbs, culverts, traffic lights/signals, street signage, street lighting, bridges, guard rails, trestles, sanitary sewer collection piping, storm sewer collection piping, water distribution piping, drainage ditches/systems, irrigation systems, tunnels, dams, sea walls/bulkheads/piers/boardwalks/docks, fire hydrants, gas distribution systems, electric distribution systems, and fiber optic cabling systems. These examples are to be used as a guide in identifying infrastructure and are not intended to be all-inclusive.

Infrastructure includes surveying, filling, and draining costs if such costs are incurred solely for the installation of the infrastructure and are not part of an overall land acquisition and construction project. Infrastructure projects with a cost under $250,000 should be charged to expense. Infrastructure assets will be carried on the books for 30 years, at which time the costs will be removed from the accounts.

A specific example of infrastructure would be utility generation and distribution systems. Includes the cost of providing utility generation systems within power plant structures as well as facilities and equipment for transmission of utilities from one location to another. (Utility Distribution Systems within a building structure, i.e., internal piping and wiring are capitalized as part of the building cost.) This account includes the installed cost of equipment used in the generation of heat, power, steam electricity, and cooling; the cost of constructing utility tunnels--as well as any equipment, switchgear, piping, and wiring housed in the tunnels. Includes costs on sanitary and storm sewers, electrical transmission lines and similar type equipment. Cost includes actual equipment and related transportation costs, and installation costs as well as any legal or other fees, licenses, surveying, equipment rental, or other such costs incurred in connection with the installation of the facilities.

Another specific example of infrastructure would be water supply or irrigation systems. Such assets would include the initial cost of sinking wells, and associated pumping equipment, reservoirs, and dams to maintain water levels for cropland irrigation and livestock watering. Costs include surveys, material, construction labor, equipment rental, and any related fees which may be incurred in construction the improvement. The cost of pivotal irrigation equipment and sprinklers should be excluded from this account and capitalized in the equipment accounts (machinery, implements, and tools). Maintenance of dams and reservoirs, including dredging, should be charged to expense.

## IV. EQUIPMENT AND CHATTEL PROPERTY

Equipment items acquired by the University will be capitalized at net invoice price (or appraised value if acquired by gift) plus freight and installation charges. For purposes of this policy, equipment and chattel property is defined by the following classifications.

| | | Expected/Depreciable Life |
|---|---|---|
| A. | All equipment and chattel property not specifically defined in other classifications | 2-10 years |
| B. | Autos, vans, and other passenger vehicles used in motor pool (State Classification Codes 3001-3099), excludes codes listed under C. | 3 years |
| C. | Heavy duty trucks, buses and cargo vehicles (State Classification Codes 3022, 3043, 3050, 3057, 3064, 3071, 3085) | 8 years |
| D. | Computer mainframe installation equipment (State Classification Codes 1801, 1855-1894, 1927, 1975, 1981, 1993) | 5 years |
| E. | Personal Computers (State Classification Codes 1807-1949, 1915, 1921, 1933-1969) | 3 years |
| F. | Computer Software | 3-5 years |
| G. | Fabricated Equipment Comprised of Components | 2-10 years |
| H. | Livestock | -- |
| I. | Leases | -- |

A. **All Equipment and Chattel Property not specifically Defined in Other Classifications**

This classification includes furniture, apparatus, rolling stock (except as listed in “B” and “C”), machinery, implements, and tools used in classrooms, laboratories, offices, shops, production operations, farm operations, storerooms, and auxiliary enterprises providing such equipment has an economic useful life of more than one year and a unit cost of $10,000 or more.

1. Each campus has the latitude to identify sensitive items of a lesser value for purposes of control or capitalization as deemed appropriate.
2. Items of lesser value may be capitalized when required by a regulatory agency.

   For inventory purposes, all items subject to the capitalization policy should be carried on the equipment inventory maintained by each campus.

B. **Autos, Vans and Other Passenger Vehicles**

Cost includes net invoice price plus any dealer preparation cost and local delivery.

C. **Trucks, Truck Bodies, Busses, and Heavy Duty Cargo Vehicles**

Costs--same as above.

D. **Computer Mainframe Installation Equipment**

This equipment should be classified separately due to the rapid obsolescence. Cost includes net invoice price plus inbound transportation and installation costs. This equipment category includes assets having a useful life of more than one year and a unit cost of $10,000 or more.

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## E. Personal Computers

This equipment should be classified separately due to the rapid obsolescence. A personal computer unit is defined as including the processing unit (CPU), screen on display (CRT), keyboard, mouse, and any other necessary hardware components needed to make the system functional. Cost includes net invoice price plus inbound transportation and installation costs. This equipment category includes assets having a useful life of more than one year and a unit cost of $10,000 or more.

1. Each campus has the latitude to identify sensitive items of a lesser value for purposes of control or capitalization as deemed appropriate.
2. Items of lesser value may be capitalized when required by a regulatory agency. For inventory purposes, all items subject to the capitalization policy should be carried on the equipment inventory maintained by each campus.

## F. Computer Software

Costs associated with the acquisition of enterprise wide systems will be capitalized at the amount paid for the software license. An enterprise wide system is defined as an ERP system that is implemented campus or university wide and represents a major outlay for the University. Typically, enterprise wide administrative systems include financial systems comprised of accounting, purchasing, accounts payable, and fixed assets, human resource systems, budget systems, grants management systems, and student information systems.

The total capitalized cost of an ERP system will be the combined amounts paid to the vendors for the system software licenses and related consultant’s implementation fees paid to the vendors or external consultants, but not maintenance expenses associated with the software. It does not include hardware capitalized as computer equipment. University payroll expenses devoted directly to the project and incurred to implement the system will be capitalized and interest costs incurred during development. Upgrades and enhancements should not be capitalized unless they significantly increase the system functionality or extend system life. Costs prior to the preliminary profit stage and costs incurred once testing is complete should be expenses as incurred. Accordingly, training and data conversion expenses will not be capitalized. Expenses associated with studying the need for a system, identifying the system requirements, and evaluating and selecting the software system to be purchased will not be capitalized.

Computer software will typically be capitalized for three to five years and will be amortized over an estimated system life.

Computer software that is propriety in nature and is necessary for a capital equipment purchase to be functional should be included in the capital cost of the equipment.

**G. Fabricated Equipment Comprised of Components**

Fabricated equipment is defined as scientific or other complex equipment comprised of several or a number of individual equipment components that are built into a single functional unit. Fabricated equipment is capitalized as a single asset for a combined total cost of $10,000 or more and a useful life greater than one year. The combined cost of all the components is capitalized even though the cost of individual items may be less than $10,000.

Typically the components of fabricated equipment are purchased by separate transactions and may be from multiple vendors. All components must function as a singular unit and will be collectively disposed of at the end of the useful life of the equipment. Individual components cannot be used independently of the remaining pieces of the fabricated equipment, as a stand-alone capital unit, and can not function separately apart from the combined unit to which it is attached,.

The expected life of fabricated equipment should approximate that of the primary components as if they were capitalized separately, unless there is a known and established life expectancy of the fabricated equipment. Replacement components may be charged to expense if the items do not materially enhance or extend the life of the fabricated equipment. Components that are added to fabricated equipment to increase functionality and life should be evaluated with discretion, and if deemed necessary, combined with the depreciated cost of the original fabricated equipment to form an upgraded capital asset with an appropriate adjusted life expectancy.

**H. Livestock**

Livestock on hand for the purposes of conducting research, testing, or educational activities and which will be sold upon completion of the project should be classified as salable inventory of the Current Funds Balance Sheet. For balance sheet valuation purposes, livestock in this classification will be valued at net realizable value at June 30 (market value less cost of disposal).

**I. Leases**

Under normal circumstances lease or rental payments for the temporary use of equipment and facilities is considered a normal operating expenditure. On occasion, the University may negotiate a contract under which the lease contains:

- A bargain purchase option;
- Covers 75 percent (75%) or more of the estimated economic life of the property;

- Lease transfers ownership to the University at the end of the contract; or
- The present value of the payments exceeds 90 percent (90%) of the fair value of the property at the inception of the contract.

If one of these criterion are met, the item is a capital lease.

Under these circumstances, the full value of the contract, including the ultimate purchase, should be capitalized in an appropriate fixed asset account according to estimated useful life at the time the contract is made. At the same time, the total lease contract liability should be established. All subsequent payments under the contract should be recorded in the appropriate operating expense account and later transferred by accounting as a reduction of the Lease Payable account.

Occasionally, equipment will be purchased under a lease contract, even though it was not the intent to purchase the equipment at the time the lease was negotiated. Under these circumstances, the equipment should be capitalized at the time the decision is made to purchase and only for the amount of the negotiated purchase price. Prior year lease payments should not be capitalized.

## V. INTANGIBLE ASSETS

University policy is to capitalize an intangible asset if the cost is greater than $500,000 and meets the criteria for a capital intangible asset. An intangible asset is capitalized only if it can be separately identified and sold, transferred, licensed, rented, or exchanged individually or together with a related contract, asset, or liability.

Expenses incurred for the development of an internally generated intangible asset are capitalized only if the intangible asset is separately identifiable and if all the following criteria are met: (1) The specific objective and service nature of the project has been determined, (2) The technological feasibility to complete the project is demonstrated so that the intangible asset can provide its expected service capacity, and (3) The University has demonstrated its intention, ability, and presence of effort to continue development and complete the intangible asset. Only expenses incurred after meeting all three of the criteria will be capitalized. Expenses incurred prior to meeting these criteria will be charged to expense as incurred.

## VI. WORKS OF ART AND HISTORICAL TREASURE

University policy regarding artwork and historical treasure is to: (a) hold for public exhibition, education, or research in furtherance of public service rather than financial gain, (b) protect, keep unencumbered, care for, and preserve, (c) not offer for public sale and to use proceeds from the sale of art to acquire other works of art or historical treasure.

Works of art or historical treasure received by gift or donation are not capitalized. Art work purchased as a part of a capital construction project is charged to expense and not capitalized unless installed as an integral part of the building structure. Art work included in the building structure will be included in the capital cost of the building. Art work that can be removed and relocated without repair to the building will be charged to expense

## VII. CONSTRUCTION WORK IN PROGRESS

Construction Work in Progress Account is designed to accumulate all costs incurred in connection with projects undertaken for the construction of renovation of capital assets. Costs will remain in the Construction Work in Progress Account until the project is complete and the building or other constructed asset is placed in service. Upon completion of the project, all costs will be removed from the

Construction Work in Progress Account and charged to appropriate Building, Land Improvements, and Equipment Accounts in accordance with the Capitalization Policy.

## VIII. CAPITALIZED INTEREST

Capitalized interest shall be capitalized for both revenue bonds and bonds to be repaid from specific fund sources. Revenue bonds are typically issued by the University of Nebraska and are repaid from housing, parking, athletics, and similar revenues. Bonds that are repaid from specific fund sources are issued through the University of Nebraska Facilities Corporation. These revenue sources include donations and pledges received through the University of Nebraska Foundation, capital appropriations appropriated by the State Legislature, and pledged University revenues and cash balances.

Interest expense is capitalized during the time a project is under construction and begins upon the issuance of bonds to finance the construction of a capital asset. The beginning date is triggered by the issuance of the bonds and when one of three conditions is present. The conditions include: (1) an expenditure has been made by a payment to the vendor from proceeds, or expenses have been incurred that will reimbursed from bond proceeds, or (2) there is a viable project underway supported by an approved program statement, or (3) an addition or an improvement is made to the project that is financed from funds other than bond proceeds when old debt remains outstanding. Interest will not be capitalized under (3) unless the project expenses are capitalized according to the capitalization policy threshold.

Both interest expense and offsetting investment income will be determined on an accrual basis, unless the cash basis doesn’t differ materially. Immaterial differences may arise if the interest payment date is close to June 30, or the investment income is received on or around June 30. Interest expense will be reduced by offsetting investment income to derive the interest amount to capitalize. Offsetting investment income is included from all bond accounts except the investment income earned by a sinking fund is excluded.

Capitalized interest will be allocated to applicable projects during construction if more than one project is financed by a single bond issue.

Interest expense capitalized by UNFC will be transferred to the campuses for capitalization along with construction costs.

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