



Minnesota State Colleges and Universities System Procedures Chapter 7 – General Finance Provisions

Guideline 7.3.6 Capital Assets

Part 1. Authority. Board Policy 7.3, Financial Administration, delegates to the chancellor authority to develop procedures to implement this policy.

Part 2. Objective. To account for Minnesota State Colleges and Universities' capital assets in conformity with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB).

For each institution to develop campus guidelines to implement and maintain the objective of this procedure.

For proprietary funds to report capital assets in the balance sheet in much the same manner as a commercial enterprise.

Capital assets include the following items (GASB-34, par.19):

- Land and land improvements
- Easements
- Buildings and building improvements
- Vehicles
- Equipment
- Sensitive items
- Property rights related to capitalized leases
- Works of art, historical treasures, and other similar assets
- Infrastructure assets (modified approach)
- Library collections
- All other tangible or intangible assets used in operations

Part 3. Definitions

Ancillary Capital Expense - Expenses incurred, beyond the cost of the capital asset, required to place the capital asset into service.

Capital Asset - An asset with a useful life greater than two (2) years, a cost (or value if donated) greater than a defined capitalization dollar amount, that maintains its identity while in use.

Depreciation - A process to systematically allocate the cost of an asset over the useful life of the asset.

Subpart A. Capital Asset Categories (Classes)

1. Land and Land Improvements
 - Land - All land purchased or otherwise acquired by the institutions. Land is non-depreciable.
 - Land improvements would include costs incurred for paving (parking lots, sidewalks, etc.), lighting systems, sewer, water and electric, fencing and similar items. Land improvements occur as a result of increasing the existing level of service in a directly related parcel of land. Additional examples include culverts, yard lighting, landscaping, public water access and other site improvements. Land improvements require maintenance and occasional replacement, therefore; they are depreciable assets.
2. Easements
 - Easements are to be accounted for in the same manner as infrastructure (See number 10)
3. Buildings and Improvements
 - All buildings purchased, constructed or otherwise acquired for Minnesota State Colleges and Universities will be recorded at original cost plus improvements.
 - Building improvements include all additions, replacements, major repairs, and reinstallations/rearrangements on existing buildings.
 - Equipment items purchased in conjunction with new buildings are to be specifically identified and recorded as equipment (see # 6 below)
4. Construction-in-Progress
 - Construction-in-progress contains amounts expended in one fiscal year on a new construction, land or building improvement or other capital construction project that will be finished in a future year. Depreciation expense for new construction will not be recognized until completion of construction.
5. Vehicles
 - Vehicles used in the operation of the Minnesota State Colleges and Universities' activities with a useful life of two or more years and a value of \$10,000 or more.

6. Equipment

- Tangible property complete in itself that is used in the operation of the Minnesota State Colleges and Universities activities for two or more years with a value of \$10,000 or more. Equipment is property that does not lose its identity when removed from its location and is not changed materially or expended in use. In addition to equipment with a value greater than \$10,000, all computers must be recorded in the Equipment/Capital Asset Module regardless of price and or age.

7. Sensitive Items and Capital Assets purchased with Federal Funds

- All sensitive items will be entered on the Equipment/Capital Asset Module. Examples of sensitive items are weapons (firearms, swords, crossbows, etc.), electronic equipment (computers, projectors etc.) etc.
- All capital assets purchased with federal funds with a cost of \$5,000 or more will be entered on the Equipment/Capital Asset Module, and inventoried, at a minimum, on a two year cycle (see Physical Inventory section below).

8. Property rights related to capitalized leases (Capital Lease Assets)

- Leased assets are to be capitalized if the following criteria are met:
 - The lease transfers ownership to the lessee by the end of the lease term
 - The lease contains a bargain purchase option
 - The lease term is equal to 75% or more of the estimated life of the leased asset
 - The present value at the beginning of the lease term of the minimum lease payments less portions representing insurance, maintenance and taxes paid by the lessor, including any profit thereon equals or exceeds 90% of the excess of the fair value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by the lessor and expected to be realized by the lessor

9. Works of art, historical treasures, and other similar assets

- Works of art, historical treasures, and other similar assets generally have to be capitalized at their historical cost (or estimated FMV at the time of donation) whether they are held as individual items or in a collection.

10. Infrastructure assets

- Infrastructure assets are defined as "long-lived capital asset that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets". Examples are:
 - a. Roads
 - b. Bridges
 - c. Tunnels
 - d. Drainage systems
 - e. Water and sewer systems
 - f. Dams
 - g. Lighting systems

11. Library Collections

- Library collections include but are not limited to:
 - a. Books
 - b. Periodicals
 - c. Microfilmed information
 - d. Electronically/digitized collections such as: music theatre or movie productions

12. Intangible assets, primarily qualifying internally generated computer software used in operations.

Part 4. Reporting Capital Assets. Capital assets may be acquired through various methods including direct purchase, construction, donation (gift), internally generated, or by transfer from another state agency.

All ancillary expenses for placing an asset into services are to be recorded using Minnesota State Colleges and Universities object code 4005.

Capital Assets – Purchased

Purchased capital assets will be reported in the statement of net assets based on their original historical cost (including capitalized interest costs, if applicable) plus ancillary expenses such as transportation, installation, and site preparation costs.

Capital Assets - Donated

Donated capital assets will be reported in the statement of net assets based on estimated fair market value (FMV) at the date of receipt plus any ancillary expenses incurred to place the asset into service. Capital assets donated to a Minnesota State Colleges and Universities' institution must comply with Board Policy 7.7 Gift and Grants Acceptance

Capital Assets (intangible) – Internally Generated

Intangible capital assets will be reported in the statement of net assets based on qualifying outlays.

Identification of Capital Assets

All nonexpendable property and sensitive items shall be identified by a "Property of the State of Minnesota" label bearing a multi-digit capital asset number.

Physical Inventory

A physical inventory of all assets with an acquisition cost or value of \$10,000 or greater shall be completed on an annual basis.

A physical inventory of all other assets maintained in the Equipment/Capital Asset module shall be completed on a cycle of no less than every three (3) years.

Capital assets purchased with Federal funds must be inventoried, at a minimum, on a two year cycle.

Part 5. Valuation of Capital Assets. Capital assets will be accounted for at cost or, if the cost is not easily determinable, at estimated historical cost. Donated capital assets are to be recorded at their fair market value (FMV) at the time received.

All ancillary expenses for placing an asset into services are to be recorded using Minnesota State Colleges and Universities object code 4005.

Purchase

The cost of a capital asset includes not only its purchase price, but also ancillary expenses necessary to place the asset in its intended location and condition for use. Estimated costs for assets may be necessary because of a lack of original documents or because establishing original cost is not practical.

Donations

Donations of non-cash assets received from donors should be recorded at the FMV plus any ancillary expenses incurred by the institution to place the asset into service. Donated assets with an estimated FMV of \$10,000 or greater should have an independent third party appraisal or other third party documentation to support the FMV of the donated asset at the time of receipt.

Donated assets with an estimated FMV of less than \$10,000 should have third party documentation to support the FMV of the asset received. Sources for documentation can be notes taken from verbal responses made by vendors in the market, copies of information taken from wholesale or retail catalogs, or other industry valuation sources.

Internally Generated

Generally include outlays for both in-house personnel and third-party contractor personnel, or acquisition outlays to a third-party if greater than minimal additional outlays for internal personnel or third-party personnel are required to achieve the expected level of service capacity.

Subpart A. Costs Associated With Capitalized Acquisitions. Minnesota State Colleges and Universities accounting and record system is the Integrated Statewide Record System (ISRS). The Equipment/Capital Asset module is the component of the ISRS system where assets are recorded for tracking and depreciation purposes. All assets with a cost or valuation equal to or greater than \$10,000 are to be recorded in the "Equipment/Capital Asset Module". The cost of an asset entered onto the Equipment/Capital Asset module includes the cost of the asset and the ancillary expenses incurred to place the asset into service.

1. Costs Associated With Capitalized Acquisitions

Costs to be capitalized associated with land acquisition that should be included in the original cost of land include (not all-inclusive listing):

- o Land
 - Original contract or purchase price
 - Brokers' commissions
 - Closing fees, such as title search, and legal fees
 - Real estate surveys
 - Grading, filling, draining, clearing
 - Demolition costs (e.g., razing of an old building)
 - Assumption of liens or mortgages
 - Judgments levied through suits

2. Costs to be associated with building acquisition that should be included in the original capital cost of the building include:

- o Buildings
 - Original contract price of construction
 - Expenses incurred in remodeling, reconditioning, or altering a purchased building to make it available for its intended purpose
 - Excavation, grading or filling land
 - Design and supervision costs
 - Building permits
 - Legal and architectural fees
 - Insurance costs during construction phase
 - Interest costs during construction of proprietary fund buildings

3. Cost types NOT to be capitalized

The following are types of expenses that should not be capitalized.

- o Cost relating to the removal or demolition of buildings, structures, equipment or other facilities. Two exceptions are as follows:

- Cost to remove or demolish a building or other structure existing at the time of acquisition of land with the intention or removal or demolition to accommodate its intended use (such cost is considered part of the land).
- Cost to remove or demolish a building or other structure with the intention of replacing the old asset (such costs are considered a part of the cost of the new asset).
- Cost incurred on assets that are not purchased, e.g., surveying, title searches, legal fees, and other expert services on land not purchased.
- Extraordinary costs incidental to the construction of capital assets such as those due to strike, flood, fire or other casualties.
- Cost of abandoned construction.

Subpart B. Costs Subsequent to Acquisition (improvements or betterments). Costs incurred to achieve greater future benefits (e.g., improves efficiency, or materially extends the useful life of the asset, etc.) should be capitalized, whereas expenses that simply maintain a given level of service should be expensed. Generally four major types of costs subsequent to original construction are incurred relative to existing capital assets.

1. Additions (extensions, enlargements or expansions). Any addition to a capital asset should be capitalized since a new asset has been created. For example, the addition of a wing to a building or the addition of an air conditioning system increases the service potential of that facility and should be capitalized. Other examples of additions include:
 - an elevator or dumbwaiter
 - fire alarm systems
 - security windows
 - sprinkler systems (internal)
 - acoustical treatment
2. Improvements and replacements: The distinguishing feature between an improvement and a replacement is that, an improvement is the substitution of a better asset -- having superior performance capabilities -- (e.g., a concrete floor for a wooden floor) for the one currently used. Whereas a replacement is the substitution of a similar assets (a wooden floor for a wooden floor).

In both of these instances institutions should determine whether the expenditure increases the future service potential of the capital assets, or merely maintains the existing level of service. When the determination is made that the future service level has been increased, the new cost is capitalized.

For additions and improvements the carrying amount of the old assets and associated accumulated depreciation, if applicable, should be removed, if the amount is known. The cost of the new asset should be capitalized. If the original cost and accumulated depreciation are not known, capitalize the additional cost.

3. Reinstallations and rearrangements: These are costs that will benefit future periods but do not represent additions, replacements or improvements. If the original installation cost can be estimated, along with the accumulated depreciation to-date, the cost may be handled as a replacement and Paragraph 2, above, should be followed. Where the original cost is not known, the reinstallation or rearrangement cost should be capitalized.
4. Repairs (Ordinary and Major): Repairs maintain the capital asset in its original operating condition.

Ordinary repairs are expenses made to maintain plant assets in operating condition. Preventive maintenance, normal periodic repairs, replacement of parts, structural components, and other activities such as repainting, equipment adjustments, that are needed to maintain the asset so that it continues to provide normal services should not be capitalized but rather charged to an expense account. Ordinary repairs should be expensed.

Examples of ordinary repairs include:

- roof and/or flashing repairs
- window repairs and glass replacement
- tuck pointing
- painting
- masonry repairs
- floor repairs

Major repairs are relatively large expenses that benefit more than one operating cycle or periods. If a major repair, e.g., an overhaul, occurs that benefits several periods and/or extends the useful life of the asset, then the cost of the repair should be handled as an addition, improvement, or replacement, depending upon the type of repair made.

Examples of major repairs include:

- roof replacements
- floor replacement
- HVAC replacement
- Generator overhaul or replacement

In some instances, implementation of this policy may be difficult due to the unique nature of the acquisition. In these cases, **professional judgment should be exercised in determining whether the efforts outweigh the benefits derived from applying capitalization.**

5. Betterments - Betterments include expenses of \$10,000 or more that become permanent parts of an existing depreciable capital asset (with an original cost of \$10,000 or greater) and can improve the asset by meeting one or both of the following criteria:
 - a. increases the usefulness of the asset, or
 - b. lengthens the capital asset's life

Betterment information is to be added to the original asset's record at the time the betterment is placed into service.

Subpart C. Capitalization Thresholds and Depreciation. Depreciation is the concept of allocating the cost of assets, having a life of more than two accounting periods, over the benefited accounting periods. Each college and university should set appropriate useful lives for depreciable capital asset categories consistent with local use and experience.

The accounting practice for depreciating capital assets of Minnesota State Colleges and Universities is to record and report the depreciation as follows:

- The straight-line depreciation method will be used for all capital assets. Assets should be assigned the life determined by Minnesota State Colleges and Universities, documented service life from institution records, or by governing industry organizations.
- Minnesota State Colleges and Universities depreciation method for land improvements, buildings and improvements, and capital leases for buildings will follow the straight line half year convention.
- Depreciation method for vehicles, equipment, and capital lease for equipment will follow the straight line method with depreciation expense calculated monthly.

Cost thresholds for capitalization and depreciation of Capital Assets by Categories

1. *Land Improvements*

- a. Improvements to land when the cost by project is equal to or greater than \$250,000

2. *Easements* - Easements will be treated as infrastructure (See # 9 below)

3. *Buildings and Improvements, including Construction in Progress*, with a cost by project equal to or greater than \$250,000. Depreciation for Construction in Progress is not begun until the date the asset is placed into service.

4. *Vehicles* with costs equal to or greater than \$10,000 must be recorded in the Minnesota State Colleges and Universities Equipment/Capital Asset Module.

- a. Betterments to an existing vehicle with a cost equal to or greater than \$10,000 must be recorded in the Minnesota State Colleges and Universities Equipment/Capital Asset Module and attached to the original asset number.

5. Equipment with costs equal to or greater than \$10,000 must be recorded in the Minnesota State Colleges and Universities Equipment/Capital Asset Module.

- a. Betterments to an existing asset with a cost equal to or greater than \$10,000 must be recorded in the Minnesota State Colleges and Universities Equipment/Capital Asset Module system and attached to the original asset number.

6. All *sensitive items* will be recorded in the Minnesota State Colleges and Universities Equipment/Capital Asset Module. Items with costs equal to or greater than \$10,000 will be depreciated.

7. Property rights related to *capitalized leases*
 - a. Equipment with costs equal to or greater than \$10,000
 - b. Buildings with costs equal to or greater than \$250,000
8. *Works of art, historical treasures*, and other similar assets:
 - a. With cost at date of purchase or a valuation at date of receipt greater than \$10,000 will be identified, capitalized and recorded in the Minnesota State Colleges and Universities Equipment/Capital Asset Module but will not be depreciated.
 - b. Items whether donated or purchased will not be depreciated.
 - c. Items will be protected, kept unencumbered, cared for, and preserved.
 - d. Items will be subject to an institutional policy that requires the proceeds from sales of collections or collection items to be used to acquire other items for collections.
9. *Infrastructure* project costs equal to or greater than \$250,000. Buildings will not be considered infrastructure assets unless they are an ancillary part of a network of infrastructure assets.
10. *Library Collections* will use a cost that is based on total current year expenses
 - a. Library collections will be depreciated using a composite method
 - b. Library collections once fully depreciated will be considered "disposed." Asset and accumulated depreciation amounts for "disposed" library materials will be adjusted to zero. A physical inventory will not be completed for library materials.
 - c. The useful life for library materials will be seven (7) years.
11. *Intangible assets* will primarily consist of internally generated computer software used in operations with project outlays equal to or greater than \$250,000.

Subpart D. Accounting for Capital Assets Removed

When a new asset substitutes for an old asset as a result of an addition, improvement or a major repair, all costs should be capitalized in one of two ways, depending upon the circumstances:

1. Substituting the new asset for the old asset -- This alternative is the most theoretically correct. If the carrying amount of the old asset is known, the cost of the old asset and related accumulated depreciation are removed and replaced with the cost of the new asset.
2. Capitalizing the cost of the addition or improvement -- If the carrying amount of the old asset cannot be determined, this approach may be used. The justification is that even though the carrying amount of the old asset is not removed from the accounts, sufficient depreciation was taken on the old asset to reduce the carrying amount almost to zero. Although this assumption may not be true in every case, the differences are not often significant.

3. Proprietary funds should report the sale or removal of assets in the same manner as a commercial enterprise by removing the asset and recording any gain or loss on the sale of the asset.
4. When equipment purchased with Federal funds with a current per unit fair market value in excess of \$5,000, is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value. (See INVENTORIES OF FIXED ASSETS, a133 Compliance Supplement (F: Equipment and Real Property Management))

Part 6. Financing Issues. Capital assets may be acquired through several methods of financing. Examples of financing methods are:

1. General Obligation Bonds (G.O. Bonds)
2. Revenue Bonds
3. Hybrid Financing - Financing between Minnesota State Colleges and Universities and other third party entities such as other governments, corporations or individuals.
4. Capital Leasing
5. Operating Funds

Irrespective of financing methods, assets acquired with the intent of ownership by Minnesota State Colleges and Universities institutions are to be recorded in the Minnesota State Colleges and Universities Equipment/Capital Asset Module.

Part 7. Inter Minnesota State Colleges and Universities Transfer of Capital Assets. In an effort to obtain optimum utilization of assets within Minnesota State Colleges and Universities' obsolete and surplus property no longer needed or required by an institution should be made available for transfer to another Minnesota State Colleges and Universities institution.

- Assets transferred to other Minnesota State Colleges and Universities institutions should be transferred at net asset value (Asset cost - accumulated depreciation = net asset value).
- Expenses incurred by the transferring institution and by the receiving institution would be added to the net asset value of the asset and recorded in the Equipment/Capital Asset Module of the receiving institution as the cost of the asset (net asset value + expense of transferring institution + expense of receiving institution = asset value).
- The receiving institution would reimburse the transferring institution for expenses incurred to facilitate the transfer using the object codes 7025 /2R00 (reimbursement of expense).
- The transferring institution will remove the asset from their Equipment/Capital Asset Module and the receiving institution will add the asset to their Equipment/Capital Asset Module if the asset exceeds the recording requirements of the asset group.

Transfers for the amount of the net asset value will require the use of the object codes 7106 / 9806 (inter Minnesota State Colleges and Universities transfers).

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Date and Subject of Revision:

6/ 10/09 - Due to technical accounting updates to capitalization conventions and amounts (in part to bring MnSCU capitalization amounts into an approximate materiality-adjusted equivalency with Minnesota Management and Budget guidelines)

10/14/03 - Due to a drafting oversight the wrong dollar amount was entered in Part 5.C.1.a, Part 5.C.3.b, and Part 5.C.7.b.