Capitalization and Depreciation Guidelines

Guidelines Statement

University of Vermont assets that are capitalized are considered fixed assets and are recorded in the Capital Assets section of the University's general ledger.

Reason for the Guidelines

It is essential for both compliance with Generally Accepted Accounting Principles and cost accounting purposes that the University of Vermont apply a capitalization standard with respect to the type of expenditures capitalized, the values at which expenditures are capitalized, and the depreciation of the resulting fixed assets.

Applicability of the Guidelines

These guidelines apply to all University of Vermont capital assets.

Guidelines Elaboration

The major classifications of the fixed asset classes at the University of Vermont are:

**Real Property**

- Land
- Buildings
- Infrastructure and Land Improvements

**Institutional Personal Property**

- Moveable Equipment
- Software Systems

I. REAL PROPERTY

A. Land

All lands acquired by purchase, gift, bequest, or otherwise which are intended to be used for University operations are fixed assets and will be capitalized, regardless of cost. Amounts capitalized include the fair market value of the land at acquisition and all costs incidental to its acquisition (legal, brokers, etc.). Where practical, the value of the land will be segregated from the value of any buildings or structures on it.

Land improvements costing $25,000 or more will be capitalized.
B. Buildings and components

All buildings and structures are considered fixed assets. All fixed equipment included in the initial construction of a building/structure or a major renovation project in a building/structure shall be capitalized. Upon request from the Associate Vice President for Finance and University Controller, building construction/renovation costs may be componentized further into additional building components such as building service systems and building interiors. Renovations will be capitalized that extend the useful life of a building and have a value of $25,000 or higher.

Specific indebtedness (bonds, notes or mortgages) incurred in connection with the acquisition of the building will be recorded as a liability in the Capital Assets Net of Related Debt asset class.

- **New Buildings.** All identifiable costs including net interest expense and purchased equipment will be capitalized during the construction period to the appropriate work-in-progress capital asset account of the general ledger. When an asset is placed in service it will be moved to the depreciable capital asset account.

- **Building Improvements.** Capital projects are those that are determined to change the useful life of a building by modifying its structure (ceiling, walls, floors, roof, or shell). They do not include normal maintenance or painting. Significant (amounts in excess of $25,000) alterations or structural changes that increase the useful life of the existing buildings should be capitalized.

C. Other Real Property

Infrastructure assets in excess of $25,000 are capitalized.

II. INSTITUTIONAL PERSONAL PROPERTY

A. Moveable Equipment

- Moveable equipment whose value equals or exceeds $100,000 per unit must be capitalized.
- Moveable equipment less than $100,000 per unit included in the cost of a construction project will be capitalized as a part of the project costs.
- Moveable equipment greater than $5,000 and not part of a construction project will be inventoried but not capitalized.

B. Software Systems

- Any major software system implementation will be capitalized when the total project is equal to or greater than $100,000. Appropriate implementation costs such as the installation of computer hardware, testing, training, employee and consultant travel expense, consultant fees, and moveable equipment will be included in the capitalized software value.
III. GIFTS OF FIXED ASSETS

Gifts of fixed assets that are not intended to be used in operations are recorded as investments. Gifts of fixed assets are valued and recorded in the following manner:

- **Land and Buildings** acquired by gift or bequest should be recorded at fair market value at the date of acquisition. The fair market value must be assigned as the result of satisfactory independent appraisal contracted for and reviewed by Campus Planning, unless an independent appraisal completed within twelve months preceding the date of acquisition is available for review and approval by Campus Planning. Land and buildings donated as gifts to the endowment or other funds should be recorded as investments and sold expeditiously for cash.

- **Gifts of moveable equipment** with a fair market value equal to or greater than $100,000 will be capitalized. Gifts of moveable equipment less than $100,000 will be recorded as gifts-in-kind and expensed.

IV. DISPOSAL OF FIXED ASSETS

Proceeds from sale, salvage, insurance or other amounts received which result from the disposal of fixed assets will first be applied to any outstanding liabilities against those assets.

- Gains or losses from the sale of fixed assets should be added to or subtracted from the fund that originally acquired the fixed asset.
- When a building is demolished, its book value and accumulated depreciation are removed from the University’s accounts and may result in a non-operating loss.

V. DEPRECIATION

The University depreciates the following classes of assets using the useful lives outlined below. The University has determined that there will be no salvage value.

- Buildings: 40 years
- Building Service Systems: 25 years
- Building Interiors: 20 years
- Fixed Equipment: 15 years
- Moveable Equipment: 5 years
- Software Systems: 7 years
Annual depreciation expense is calculated using the straight-line method over the appropriate useful life. Fixed asset values reclassified from one asset class to another are depreciated using the remaining value/remaining life calculation. Depreciation schedules are maintained for each asset class and are updated annually to detail the current year depreciation expense.

VI. FINE ARTS, LIBRARY COLLECTIONS, AND LIVESTOCK

Works of art, historical treasures, library books, and similar assets should not be capitalized, nor should they be depreciated, provided:

- They are held for public exhibition, education, or research in furtherance of public service rather than financial gain.
- They are protected, kept unencumbered, cared for, and preserved.
- Any proceeds from the sale of collection items will be used to acquire other items for collections.

Livestock is not capitalized.

Definitions

**Assets:** Items of ownership convertible into cash, as cash, notes and accounts receivable, securities, inventories, goodwill, fixtures, equipment, or real estate

**Building Interiors:** General interior renovations/improvements

**Building Service Systems:** Service systems such as plumbing, heating, ventilation, air conditioning, electrical, fire protection and safety, and elevators

**Capital Moveable equipment:** An article of non-expendable, tangible, personal property which stands alone, is complete in itself, does not lose its identity, has a useful life of more than one year, and has a value of $100,000 or more

**Capital Projects:** Those projects that add to the fixed assets of the University or increase the useful life of a fixed asset

**Fair Market Value:** Cost at acquisition in an arm’s length transaction, or at appraised value for gifts

**Fixed Equipment:** Permanently attached fixtures, machinery, and other appurtenances that cannot be removed without cutting into walls, ceilings, or floors or otherwise damaging the building

**Infrastructure:** Long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets and that normally are stationary in nature
Institutional Personal Property: Moveable Equipment, Software Systems, Fine Arts, Library Collections, and Livestock

Land Improvements:  Betterments, other than buildings, that ready land for its intended use

Real Property:  Land, Buildings, Infrastructure and Land Improvements

Software Systems:  Purchased, or University developed, software including all implementation costs

Contacts

Questions related to the daily operational interpretation of these guidelines should be directed to:

University Financial Services
Assistant Controller
222 Waterman Building
656-1375

The Controller is the official responsible for the interpretation and administration of these guidelines.