

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
- Land Improvements and Infrastructure

Institutional Personal Property

- Movable Equipment
- Software Systems
- Research Vessels

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.

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 *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. The cost of clearing, excavating, demolishing preciously utilized buildings (net of any salvage value received), filling and grading attributable to the construction are considered part of the cost of the new asset.
- 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. Land Improvements and Infrastructure

Land improvements include items such as excavation, driveways, sidewalks, parking lots, retaining walls, fencing, outdoor lighting and other non-building improvements intended to make the land ready for its intended purpose.

Land improvements which do not deteriorate with use or passage of time are additions to the cost of land. Land improvements which have finite lives, such as the paving of a parking lot or installation of fencing or lighting, should be classified as land improvements and be depreciated over the useful life of the improvement.

Infrastructure assets are defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems and dams.

Land improvements or infrastructure which extend the useful life or capacity of the asset and meet capitalization thresholds will be capitalized as a separate asset or component and depreciated over its estimated useful life. Land improvements or Infrastructure assets in excess of \$25,000 are capitalized.

II. INSTITUTIONAL PERSONAL PROPERTY

A. Movable 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 should be capitalized as movable equipment. Considerations for capitalizing movable equipment are:

- Implementation costs such as installation, configuration, shipping/freight, handling, duty, and protective in-transit insurance are included in the unit cost. The unit cost will be net of any trade-in value.
- Movable equipment that isn't in-service but meets the \$100,000 per unit threshold will be placed in the appropriate work in progress asset account of the general ledger.
- Movable equipment greater than \$5,000 but less than \$100,000 will be inventoried but not capitalized.
- Expenditures for repairs, maintenance or replacement of component parts which do not extend the unit's original life or significantly enhance its net value should be expensed as incurred.
- Expenditures incurred in demolishing or dismantling equipment should be expensed

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 movable equipment will be included in the capitalized software value.

C. Research Vessels

Research vessels that have a value of \$100,000 or more should be capitalized. Costs such as design, transportation charges to point of initial use, fixed equipment and related installation costs, integral built-in electronic systems are included in the unit cost. Studies that become part of the project will be capitalized. Software developed by the project that is integral to the research vessel and is not considered to be "stand alone software" is included in the unit cost. Costs that are not included in the unit cost are:

- Concept studies will be expensed until a determination is made as to whether or not the study leads to further development within the project.
- Non-integral items such as movable equipment will be treated as a standalone asset and will not be included in the cost of the research vessel

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

V. 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.

- No depreciation expense will be recorded in the year of the asset's disposal.
- 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

VI. 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
- Movable Equipment: 5 years
- Software Systems: 7 years*
- Land Improvements with finite lives 20 years
- Research Vessel 30 years

*Although 7 years is used as the standard useful life for software systems, the useful life of internal-use computer software is determined by the Controller's Office. The factors considered when estimating the useful life include the effects of obsolescence, new technology and whether rapid changes are likely to occur in the development of similar software products, software operating systems, or computer hardware and whether the University intends to replace any technologically obsolete software or hardware. When the software is cloud-based, the useful life will generally be limited to the term of the underlying hosting agreement. Renewal options may be considered if it is likely that the agreement will be renewed without substantial additional costs or modifications.

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 dividing the remaining value by the remaining life. Depreciation schedules are maintained for each asset class and are updated annually to detail the current year depreciation expense. Other than movable equipment, a full year of depreciation is recorded in the year an asset is placed into service. Depreciation for movable equipment is based on when the equipment is placed into service.

VII. 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 Movable 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: Movable 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

Research Vessel: Research vessels are highly advanced mobile research stations, providing stable platforms from which explorers can deploy equipment, divers, and submersibles.

Software Systems: Purchased, University developed, or cloud-based computing arrangements 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 University Controller is the official responsible for the interpretation and administration of these guidelines.