General Policy and Procedure Overview:

This policy provides guidance for the accounting treatment of the Capital Asset, Buildings and improvements to buildings. It addresses capitalization, repairs, infrastructure, componentization, and depreciation.

Definition of Key Terms:

Infrastructure: Includes streets, pavements, landscaping, utility and telephone distribution systems, and parking lots. All identifiable costs are included such as (but not limited to) contract costs, insurance and interest costs during the period of construction.

Real Property: The term real property refers to land. Land, in its general usage, includes not only the face of the earth but everything of a permanent nature over or under it. This includes structures and minerals.

Useful Life: The time period over which an asset is expected to provide the entity with service potential.

Capitalized Expenditures: Expenditures that meet the university’s guidelines for capitalization as defined in this policy. Such expenditures are recorded as additions to the asset and depreciated rather than being treated as expenses in the immediate accounting period.

Maximo: The system used by the Construction Management area to track resource utilization.

Non-capitalized Repairs: Expenditures for repairs to a building that do not meet the University’s requirements for capitalization.

Building Components: Assets that are significant parts of a building. When recording buildings, the capitalized asset should be broken down and recorded according to the appropriate Building Component. Buildings are structures consisting of the building shell, exterior walls, interior framing floors, and ceilings. This also includes all permanent structures, fixtures, machinery, and other apparatuses that cannot be readily moved without disrupting the basic building structure or services to the building. It excludes infrastructure.

Detail Policy and Procedure:

Acquisition Design and Construction:
This policy deals with the accounting for buildings. For guidance on the process for the acquisition, design, and building process, see the Business Policy Manual for Facilities.

Land Acquired with Existing Buildings:

When Land is acquired with Buildings erected thereon, the total cost is allocated between the categories of Building and Land at the date of acquisition. This allocation should be based on the purchase documents obtained from the Campus Business Services offices. If the purchase documents do not show the allocation, other sources of the information may be used such as expert appraisals or the real estate tax assessment records. If the Land contains old Buildings and was purchased with the intent to raze the Building, the purchase price must still be allocated between, Land and Building. Once the Building has been disposed of/razed, it will be retired from service through the PeopleSoft Asset Management System. See land policy 20.05.45.

Buildings and Building Components

Building and Building Component Capital repair expenditures are capitalized if:
- Greater than or equal to $100,000 for a campus or System Business Unit or greater than or equal to $50,000 for the Hospital Business Unit and;
  - Change functionality or adapts the space for changing programmatic needs/standards, and;
  - Extend a building useful life/or use beyond original life.

When recording buildings, the capitalized asset should be broken down and recorded according to the appropriate Building Component. Building Components are assets that are significant parts of a building. At the University of Missouri buildings are recorded with the following 11 building components:

- Building Structures
- Mechanical and Heating Ventilation & Air Conditioning
- Electrical
- Plumbing
- Roof Types
- Windows and Doors
- Floor Finishes
- Wall Finishes
- Elevators
- Escalators
- Other Fixed Equipment

Buildings and Building Components should include a proportionate share of the architectural fees, consulting costs, and any interest expense if borrowed funds are used for construction.

When Buildings are purchased or acquired by gift or bequest, the basis of valuation is similar to that used for Land. The cost or fair market value at date of acquisition is allocated between the Buildings and the related Land. When Buildings are constructed, all identifiable costs are included such as (but not limited to) contract costs, insurance and interest costs during the period of construction.
Building Acquisitions

The following entries are created by the processing of the voucher for the purchase.

<table>
<thead>
<tr>
<th>Transaction Description</th>
<th>Account</th>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building Expense</td>
<td>799000 – New Construction Proj/Bldg</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>190000 Cash</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

The campus accounting office will add the asset to the Asset Management System. When the Building asset is added to the Asset Management system, entries are created recording the asset and crediting a contra asset account.

The following entries are created when the asset(s) are entered into Asset Management.

<table>
<thead>
<tr>
<th>Transaction Description</th>
<th>Account</th>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building Asset</td>
<td>173000 Building Asset</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Contra Asset Account</td>
<td>502000 BIC Contra Asset</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

At year end a “Recon 35” report is run listing the Contra asset and the capital asset accounts. Each campus accounting office will reconcile their accounts. Any differences between the two amounts on the Recon 35 report are researched and adjusted. These amounts would represent either Capital Assets purchased but not recorded in asset management or items recorded as assets that were not processed to capital asset accounts.

Recording Building Acquisition in Asset Management

1. Campus Accounting Offices record building purchases in Asset Management. The following information is added to Asset Management regarding the land/building purchases:
   a. Purchase price (broken down by components if applicable)
   b. Seller
   c. Land/Building location
   d. Purchase date
   e. ChartField

2. The purchase price should include all expenses incidental to the land/building purchase, (i.e. appraisal, title, recording, and legal fees).

Recording Building Gifts without endowment involvement in Asset Management

1. Campus Business Services notifies the Campus Accounting Office of the gift and the Campus Accounting Office enters the land/building addition into Asset Management.
2. The following information is added to Asset Management regarding the land/building gift:
   a. Purchase price (broken down by components if applicable)
   b. Donor
   c. Land/Building location
   d. Purchase date
   e. Chartfield
   f. Parent Building Profile
3. The value of the land/building should be equal to the fair market value plus any cost incurred with the acceptance of the gift, (i.e. appraisal, title, recording, and legal fees).

4. At the Fiscal Year-End, Campus Accounting Office’s should contact their Campus Development Office to obtain a listing of all Non-Cash Gifts to ensure everything was recorded during the year.

The entries to record the non-cash gift are created from the Development Office. Entries to are created by the Development Office software and fed to the General Ledger.

<table>
<thead>
<tr>
<th>Transaction Description</th>
<th>Account</th>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>The entry is recorded for all of the components of the building</td>
<td>7XXXXXX Building Capital Expense</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Recording of Non-Cash Gift</td>
<td>48XXXX Non-Cash Revenue</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

When the asset is added to the Asset Management system, entries are created recording the asset and crediting a contra asset account.

The entries are created when the asset(s) are entered into Asset Management.

<table>
<thead>
<tr>
<th>Transaction Description</th>
<th>Account</th>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building Gift</td>
<td>173000 Building Asset</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>BIC Contra Asset</td>
<td>502000 BIC Contra Asset</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

Recording of Building Gifts with Endowment Involvement in Asset Management

If the land/building gift forms a part of an endowment corpus, then the gift is not recorded in the Asset Management. The Campus Accounting Offices or Treasurer’s Office will make the entry to the general ledger with a debit to the appropriate ChartFields, in account 123000 and a credit to the gift account on the endowment ChartField string, including the DeptID.

Utilities and Connection Fees:

Utility distribution system is a capital asset but not as a part of the building costs. Rather, utility distribution systems are capitalized.

Connection Fees are not capitalized assets but are treated as expenses.

Capitalization of University Labor Costs:

University resources may be utilized in construction or renovation of buildings. The Construction Management Department may engage the various University shops for relatively minor involvement in a project. University resources may be utilized so long as the total labor costs do not exceed $80,000.

<table>
<thead>
<tr>
<th>Transaction Description</th>
<th>Account</th>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalize the labor cost</td>
<td>173000 Building Asset</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Record the cost in a clearing account</td>
<td>Construction Services</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

Construction in Progress

Official Accounting Policies and Procedures of the University of Missouri System are Authorized and Issued by the Office of the Controller.
This includes all projects for buildings, infrastructure or fixed equipment that are still in progress or not yet in service (less than 95% complete).

**Capitalization of Repairs and Maintenance**

**Building and Building Components**

Building and Building Component Non-Capital repair expenditures are:
- Parts, labor and other related costs to repair to normal operating condition, and realize their originally anticipated useful life.
- Includes preventative maintenance, maintenance contracts, janitorial services, window washing, and extermination services.

**Infrastructure**

Infrastructure includes streets, pavements, landscaping, utility and telephone distribution systems, and parking lots. All identifiable costs are included such as (but not limited to) contract costs, insurance and interest costs during the period of construction.

Infrastructure Capital repair expenditures are capitalized if:
- Greater than or equal to $100,000 for a campus or System Business Unit or greater than or equal to $50,000 for the Hospital Business Unit;
- Increases capacity, efficiency, enhances, or improves functionality;
- And extends the assets useful life/or use beyond what it was originally.

Infrastructure Non-Capital repair expenses:
- Routine maintenance expenditures;
- Less than the threshold set above for capitalization;
- or does not extend the asset’s useful life/or use beyond original life.

**RESPONSIBILITY**

**Construction Management**
- Tracks utilization of internal resources for potential capitalization
- Manages the balance in the construction services account clearing it against the appropriate level of expense

**Campus Accounting Office:**
- Makes the accounting entries for all land and building transactions
- Enters the assets into the Asset Management system.
- Monthly analyzes the contra asset and the capital asset accounts to ensure expenditures have been properly classified.
- Ensure that all Building, Land and Infrastructure assets for a particular fiscal year are recorded into Asset Management by the deadline established for the fiscal year by the System Accounting Office.
Questions and Comments?
Questions regarding interpretation and implementation of the Accounting Policy should be directed to the Campus Accounting Office. Suggested edits or revisions to the policy should be directed to the Office of the Controller.