University of Missouri System
Accounting Policies and Procedures

Policy Number: APM-20.05.40

Policy Name: Capital Assets - Equipment

General Policy and Procedure Overview:

This policy addresses the treatment of capital equipment. It includes equipment that is purchased by and titled to the University, not titled to the University but in the University's possession, and equipment gifted to the University. The policy discusses accounting treatment and related controls surrounding capital equipment.

Definition of Key Terms:

Capital Equipment: Physical assets that are not permanently affixed to buildings, have a useful life greater than one year, with a unit cost greater than or equal to $5,000 ($2,500 for Hospital).

Capital Equipment Repair Expenditures: expenditures that are: greater than or equal to $5,000 ($2,500 for Hospital); extend the assets useful life/or use value beyond what it was originally; and improve functionality or service capabilities.

Non-University Owned Equipment: Equipment that is titled to an entity other than the University but is in the University's possession. The thresholds applicable to University owned equipment apply here unless the owner requires a different threshold in which case the Asset Management system will be used to track the equipment.

Unit of Equipment: A unit of equipment is defined for purposes of this policy as an individual item, or group of items, which is usable for its intended function and which cannot be separated without a diminishment in the usability of the item for its intended purpose.

Detail Policy and Procedure:

Equipment acquired by purchase is recorded at cost. For equipment purchased, the valuation is the invoice price less all discounts (except trade-in allowances). Trade-in allowances are handled as an adjustment to cost when recorded in PeopleSoft Asset Management. Freight and installation costs are also included if they are shown on the original invoice, or if they are readily available on related freight bills.

The following information is added to Asset Management regarding the equipment purchase:

1. Description
2. Profile Description
3. Location
4. Tag Number

5. PeopleSoft ChartFields related to the purchase
6. DeptID of the responsible Department and the name of the responsible employee (entered into the Custodian Panel)
7. Acquisition Cost
8. In-Service Date
9. Invoice Date in the Interfaces Info/Acquisition Detail page
10. Purchase Order Number in the Interfaces Info/Acquisition Detail page
11. Voucher Number in the Interfaces Info/Acquisition Detail page
12. Serial Number
13. Model Number
14. If the equipment is not owned by the University (title has not passed to the University) the asset record in the asset management system must contain the appropriate annotation identifying this as a non-university owned asset.
15. Disposition Date

The Campus Property and Procurement Departments generate reports used to locate the purchased equipment. A unique tag will be applied to the asset for University owned assets and another unique tag used for non-University owned assets.

Campus Accounting Offices should reconcile equipment purchases to Asset Management additions to ensure capital equipment purchases have been entered into Asset Management.

<u>Equipment acquired by gift</u>:

Equipment acquired by gift is recorded at fair market value at the date of acquisition.

<u>Recording of the Equipment Gift in Asset Management</u>

a) The campus Development Office forwards the Advice of Gift to the Procurement Office. The Procurement Office enters the asset directly into Asset Management.
b) The following information is added to Asset Management regarding the equipment gift:
   1. Description
   2. Location
   3. Tag Number
   4. PeopleSoft ChartFields related to the gift
   5. DeptID of the responsible Department (entered into the Custodian Panel)
   6. Cost
   7. In-Service Date
   8. Profile Description

<u>Leased Equipment</u>

Leased equipment is capitalized if it meets the criteria outlined in the Financial Accounting Standards Board (FASB) Standard No. 13, which essentially provides that:

A lease is a capital lease if at inception it meets any one of the following criteria:

a. It transfers ownership of the property to the lessee by the end of the lease term;
b. It contains a bargain purchase option;
c. The lease term is 75% or more of the estimated economic life of the leased property; or
d. At the beginning of the lease term, the present value of the minimum lease payments (excluding executory costs) equals or exceeds 90% of the excess of the fair value of the leased property.

The leased equipment is recorded at the total cost net of interest expense (the present value at inception of the lease).

<u>The valuation of fabricated equipment</u>

This includes all identifiable direct costs such as drawings, blueprints, component parts, materials, and supplies consumed in fabrication, labor, and installation. Equipment fabricated with federal, state, or private grant funds should be capitalized by the entity that owns the asset. If the granting agency retains title of equipment the asset will be recorded in Asset Management within the non-university owned equipment category. During construction of fabricated equipment, expenses should be charged to capital accounts. Campus Accounting Services should be notified in order to help aid them in reconciling between Asset Management and the General Ledger.

<u>Federal, State, & Private Grant Funded</u>

The University receives funding for sponsored projects from external sources, including significant funding from the federal government. The University must properly classify, safeguard, and depreciate equipment. Federally funded equipment should be managed in accordance with the OMB Uniform Guidance and Federal Acquisition Regulations (FAR), specifically FAR Parts 45 and 52.245. In addition, certain sponsors may have capital equipment requirements in the terms and conditions of the award.

Federal, state, and private grant funded capital equipment is classified depending on ownership or title to the equipment. Title to or ownership of equipment is determined by the provisions of the sponsoring award, contract, or agency policy. There are three classifications of grant funded capital equipment:

1. Sponsored Purchased/University-owned
   Equipment purchased in whole or in part with federal or other sponsoring agency funds with title vested to the University.

2. Sponsored Purchased/ Government-owned Equipment
   Equipment purchased with federal funds with title vested to the federal government is considered "government-owned equipment." Government-titled equipment may not be disposed or removed from service without approval from the sponsoring agency.

3. Government-furnished Property
   Equipment in the possession of, or acquired directly by, the federal government and subsequently delivered or otherwise made available to the University under a grant or

contract is considered "government-furnished property." Title to government-furnished property remains with the government, regardless of the equipment's value. Government-furnished property must be appropriately identified and tracked by the receiving department. The department should also notify their campus Sponsored Programs Office when the equipment is received for special reporting requirements.

Government-owned or government-furnished property, excluding items used under capital lease agreements, should not be reported in the financial statements.

Equipment Repairs and Improvements

Equipment Capital repair expenditures:

- Are greater than or equal to $5,000;
- Extend the assets useful life/or use value beyond what it was originally;
- Improve functionality or service capabilities.

Equipment Non-Capital repair and maintenance expenditures:

- Keep equipment in normal operating condition without extending the useful life. (i.e. Maintenance Agreements are not capitalized.)
- Bring the Asset back to its original state without improving upon it.

Inventory / Asset Verification Process

See policy BPM 407 Physical Inventory.

Responsibility:

Campus Accounting Offices:

- Reconcile equipment purchases to Asset Management additions.
- Execute adjusting entries to the Asset Management and General Ledger for equipment.

Departments:

- Perform annual inventory of physical assets.
- Communicate any additions, disposals, or movements of equipment to Procurement Office.

Procurement Office:

- Tag all purchases.
- Initiate and monitor the annual inventory/asset verification process and distribute inventory reports for asset verification.
- Maintain inventory records for moveable equipment.
- Capitalize equipment in Asset Management and add required detail.

Effective Date: July 1, 2006
Revised Date: February 11, 2015

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.