




<b>Applies to:</b> All Florida Tech Employees	<b>Original Policy Date:</b> 5/1/2018	<b>Date of Last Review:</b> 11/01/2023	<b>Approved By:</b>  Dr. John Nicklow, President
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## Policy Title

Capitalization and Depreciation Policy

Policy Owner: Office of the Controller

## Policy Purpose

Items purchased by the University that have a significant cost and/or a useful life greater than one year shall be recorded as assets, and their cost shall be capitalized and depreciated using the straight-line method over the useful life of the asset. The useful life for an asset is determined by the asset's classification within the Alternate Depreciation System and may be adjusted if specific useful life can be obtained from the manufacturer of the asset.

## Policy Scope

This policy applies to all University faculty and staff regarding the proper accounting of assets purchased by university, government, or private sponsor funds.

## Definitions

**Capitalization:** In accounting, capitalization is when the costs of acquiring a long-lived asset are expensed over the expected useful life of the asset, rather than in the period in which the asset was acquired. Capitalization of assets not purchased with grants funds will be for assets greater than \$10,000 and with a useful life that is greater than 1 year. Capitalization of assets purchased with grant funds will be for assets greater than \$5,000 and with a useful life that is greater than 1 year, or as dictated by Federal and State regulations relating to the specific grant agreements.

**Depreciation:** Depreciation is the process of allocating the cost of a long-lived asset over time rather than deducting the cost as an expense in the year in which the asset is acquired. Generally, at the end of the asset's useful life, the sum of the amounts charged for depreciation in each accounting period will equal the original cost of the asset less any salvage value.

Useful Life: The University has established the following estimated useful life by asset group:

Buildings	7 to 50 years
Building Improvements	7 to 20 years
Leasehold Improvements	Length of lease
Vehicles and Boats	7 to 10 years
Computer Hardware	3 to 5 years
Computer Software	5 years (amortized)
Furniture and Equipment	7 to 15 years
Library books	12 years
Airplanes	5 to 12 years

The University maintains a detailed listing of useful lives of all assets in order to calculate the depreciation schedule.

**Straight-Line Method:** The straight-line method of depreciation reduces the asset's cost uniformly over its useful life. The depreciation expense incurred each period is the same and the asset's carrying cost declines in a straight-line over its useful life.

**Placed-In-Service Date:** The date the asset is ready and available for a specific use. The month in which the asset is available for use is the month that depreciation begins. Depreciation will continue until the asset has been fully depreciated at the end of its useful life, or until it is retired from service, whichever comes first.

In addition, financed leases must be capitalized if the leased asset meets any of the following criteria for capital leases:

- The lease transfers ownership of the property
- The lease contains a bargain purchase option (lower than fair market value)
- The lease term is at least 75% or more of the economic life of the asset
- The present value of the minimum payments equals or exceeds 90% of the fair market value of the asset
- The asset is deemed specialized, meaning that it is not expected to have an alternative use to the lessor when the lease agreement concludes

## **Procedures/Guidelines**

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The following is a brief description of items to be capitalized:

### **Land**

Land is capitalized and included with the University's long-lived assets when it is acquired, but it is not depreciated as land has an indefinite useful life and generally appreciates in value.

The capitalized cost shall include the original contract price, the cost of an option when it is exercised, the cost of cancelling an unexpired lease, real estate broker's commissions, assessments and impact studies, legal fees for contract review and examining and recording title, transaction and deed recording fees, appraisal fees, surveying or engineering costs, cost of title guarantee insurance policies, payment of noncurrent taxes accrued on the land at date of purchase – if payable by the purchaser, cost of excavation, grading, or filling of land and razing of an old building.

Land that has been donated or gifted to the University will be capitalized at its fair market or appraised value at the time of the acquisition.

The acquisition cost of property that includes both land and buildings/structures that will be used by the University will be allocated between land and buildings based upon appraised values.

### **Acquisition of Buildings by Purchase**

When buildings are acquired by purchase, the purchase price and associated closing costs will be allocated between land and buildings based on the appraised values. Additional costs of renovating buildings or structures to make them ready for use and available for service will also be capitalized.

### **Construction of Buildings**

When a building is constructed on University property, its initial capitalized cost will include the complete construction cost of the building and building systems – including all integral plumbing, HVAC, electric, natural gas, fire detection and suppression, elevators, network and communication wiring, and permanent fixtures relating to the distribution of utilities within the building. The capitalized cost will also include architectural and engineering fees, inspection fees and permits, bid and RFP advertising expenses, construction financing and interest expenses, construction management costs, and insurance and utility expenses incurred during construction. The cost of temporary facilities used during the construction period may also be capitalized.

### **Construction in Progress (CIP)**

A construction in progress (CIP) asset reflects the cost of construction work undertaken, but not yet completed. No depreciation is recorded for these assets until the project is completed and the asset is placed into service. At that time, the asset shall be reclassified as building, building improvement, or land improvement, and then placed in service and depreciated.

## **Donations of Capital Assets**

Donations of capital assets including land and equipment are recorded at their fair market or appraised value at the time they are received. The donor will receive an official University Gift receipt from the Office of Development. The fair market value of items donated by manufacturers and suppliers, for which there is a published market or list price, will be the item's published price. If the value of the item exceeds \$10,000 and there is no published list price, an appraisal of the asset will be obtained by the University. The cost of the appraisal will be an operating expense of the University unless paid by the Donor. This appraisal will be for University accounting valuation only, and donors will be advised to obtain a qualified appraisal of their donation for their personal or corporate tax use.

## **Major Renovations and Leasehold Improvements**

Major renovations and improvements of buildings, athletic facilities, equipment, and other structures that extend the useful life of the building will be capitalized. Completed renovations and improvements are recorded as unique assets and are depreciated according to the Alternate Depreciation System. Renovations that only repair or modify current structures, but do not enhance the structure, should be expensed. Examples of capital improvements include, but are not limited to:

- Ramps, entries and exits, overhead doors, fire escapes, and other appurtenances
- Improvements or modifications that are required to comply with current fire, health, access, and safety codes
- Improvements to convert unusable space into usable space, or to upgrade floor space for another use, such as converting storage space to classroom space
- Modernization of the structure as a whole – not merely rearranging classrooms, offices, or workspaces
- Any renovation that involves significant razing of an existing structure – When this occurs, the cost of the portion that was razed should be removed from the carrying cost of the original asset. If the original cost figures are unavailable, a reasonable estimate of the original cost should be used.

Examples of non-capital improvements that restore the property to its previous condition, but do not extend its useful life, include, but are not limited to:

- Carpet and flooring replacement
- Patching a hole in the roof
- Minor equipment repairs
- Painting of the interior or exterior of a building
- Replacing broken windows
- Replacing interior or exterior lighting fixtures

## **Furniture & fixtures**

Furniture and fixtures will be capitalized at net invoice price, or fair market value if acquired by gift, plus freight, set-up, and installation charges.

## **Major Equipment**

Major equipment will be capitalized at net invoice price, or fair market value if acquired by gift, plus freight, insurance while being transported, loading/unloading fees if performed by a third party, set-up/calibration, and installation charges (including required wiring, electrical panels, mounts, platforms and/or pedestals, and site preparation costs associated with the installation of the equipment).

Autos, trucks, vans, and buses will be capitalized at the net invoice price plus any dealer preparation costs, local delivery costs, or costs associated with equipping or upfitting the vehicle for its intended use.

Boats will be capitalized at the net invoice price plus any dealer preparation costs, local delivery costs, or costs associated with equipping or upfitting the boat for its intended use. If the boat requires a special trailer, the trailer's cost will be capitalized with the boat.

Airplanes will be capitalized at the net invoice price plus any dealer/manufacturer/broker preparation costs, local delivery costs, or costs associated with upfitting the airplane for its intended use.

Computer Software, Hardware, and Related Components: The cost of these items will include the net invoice price plus any related consulting, freight, and/or training costs closely associated with the item's initial installation and implementation. Related components include internal hard drives, processors, memory upgrades, keyboards, and other devices which individually do not meet the capitalization threshold, but because they have been purchased as a component of a larger system are appropriate for capitalization. Yearly licensing fees will not be capitalized, although the initial cost of installing and preparing for a software license can be capitalized.

Roads, Hardscaping, Landscaping, Athletic Fields, Recreation Courts, and Swimming Pools: Includes construction and installation costs of sidewalks, drives, parking lots, curbs, parking stops, retaining walls, fences, flag poles, bridges, culverts, shrubs, trees, lawns, outdoor lighting, irrigation systems and drainage systems, and turf and sod for athletic fields. Engineering and design costs should also be included, as well as costs associated with site preparation, surveying, draining, filling, grading, permitting, inspections, and construction management. Additions to existing sidewalks, drives, and parking lots should be capitalized in the year in which they are completed. Costs of maintaining, repairing, patching, partial replacement, and resurfacing existing roads, hardscaping, or athletic fields, will be charged as an expense in the period in which the work is completed.

**Generation / Transmission Energy Systems:** Includes the cost of designing, developing, and providing utility generation systems within power plant structures, and facilities and equipment used for the transmission of utilities from one location to another. Utility generation systems within a building, such as internal plumbing, piping, and wiring, are capitalized as part of major building renovation project costs. Energy systems costs include the costs associated with acquiring and installing equipment used in the generation of heat, electricity, power, steam, and cooling, along with the cost of any equipment used in its routing, switching, monitoring, or transmission. Additions or extensions to energy systems will be capitalized in the year in which the addition or extension is placed in service.

**Utility Tunnels and Conduits:** Includes the cost of constructing or converting utility tunnels and their related piping for the purpose of carrying equipment related to the distribution of utilities. Costs include sanitary and storm sewers, and their related construction, materials, and installation costs, plus the cost of engineering, designing, surveying, permitting, environmental impact studies, inspecting, and construction management of such systems.

**Library:** Books, volumes, and reference collections purchased by the University libraries (including departmental libraries). These items are not capitalized with each purchase but accumulated for the year and capitalized as a group. Periodicals and serials will not be capitalized.

**Collections of Art, Rare Books, and Historical Collections:** Items of significant cultural, aesthetic, or historical value will typically be preserved and protected as inexhaustible resources. The University has elected not to capitalize the cost or value of the collections.

### **Tracking and Accounting of Assets**

All capitalized assets will be identified and tracked within the University's Fixed Asset Module in Workday. To ensure that capitalized assets have been recorded and can be properly tracked, when possible, an identification tag will be attached to the asset. The ID tag will label the asset as "Property of Florida Institute of Technology" and will include the asset's ID number that is assigned in the Workday Fixed Asset Module.

The University will conduct periodic inventory counts of its long-lived assets and reconcile the physical count with the long-lived asset records. A complete physical inventory shall be conducted at least once in a five-year period.

The accuracy of the University's accounting records is dependent on timely and accurate reporting of asset disposals. When an asset is disposed of, its disposal and any salvage proceeds must be reported to the Controller's Office. Additionally, the proceeds from salvage sales must be deposited within 3 business days of their receipt.

## **Grant Funded Equipment**

Assets that have been purchased with private or government grant funds will be tagged, tracked, and inventoried in the same manner as assets that were purchased using the University's funds, however, the University Fixed Asset records will reflect the funding agency so that internally and externally funded equipment can be identified.

If a faculty member is hired by the University and is the primary investigator (PI) on an ongoing grant or contract and needs equipment purchased by that grant/contract in order to continue his/her research, the university may, at its sole discretion, negotiate with the prior institution for the acquisition of the specific equipment. In this instance, a detailed inventory and valuation of the equipment must be provided to the Office of Sponsored Programs (OSP) to allow for the proper recording of the equipment in the University's long-lived assets. The OSP will notify the Controller's Office and Property Administration so that the inventory can be registered in the Workday Fixed Asset module and properly tagged. Any compensation required for the acquired equipment must be coordinated with the Controller's Office.

If a faculty member leaves the University and is the primary investigator (PI) on an ongoing grant or contract and needs equipment purchased by that grant/contract in order to continue his/her research, the university may, at its sole discretion, produce an inventory summary of grant assets and relinquish those assets to another institution. The OSP will evaluate the grant to confirm the grant terms to ensure that it is allowable to remove the equipment from the University's long-lived assets. If this is allowable, then the department head and dean will make a recommendation to either relinquish the equipment to the PI's new institution or to retain the equipment in the University's inventory. If it is authorized to be relinquished to the new institution, the OSP will provide the new institution with an official listing of the related grant-funded equipment. The OSP will notify the Controller's Office and Property Administration so that the inventory can be removed from the Workday Fixed Asset module and untagged before it is transported to the acquiring entity. Any compensation received for the transferred equipment must be coordinated with the Controller's Office. Any expense of transporting the equipment will be the responsibility of the receiving institution.

If an asset purchased with grant funds is no longer needed for the grant it was purchased on, it may be relinquished to other like grantee(s), or retired, at the University's sole discretion. The OSP will contact the granting agency, if necessary, to determine the appropriate procedure for relinquishment or disposal of the asset(s). This will be done when the grant is closed. The OSP will notify the Controller's Office and Property Administration so that the University's long-lived assets can be updated in the Workday Fixed Asset module.

## **Group Purchases**

Individual equipment or furniture purchased as a group in conjunction with a new building, building renovation, new program or clinic, the refurbishment of an entire classroom or lab, which does not have an individual unit cost of \$10,000 or more will be capitalized as a group purchase and depreciated over the relevant asset class recovery period, such as furniture – 7 years.

## **Modular Furniture / Furnishings**

Modular furniture and furnishings are designed so that they may be assembled in multiple configurations and relocated with ease. Tracking of the individual modular components is difficult because they can be reconfigured, removed, and/or discarded with ease. Therefore, modular furniture and furnishings will not be capitalized.