Applicable Employee Classes:	**Reviewed Date:**	**Approved by:**
All Florida Tech Employees	April 2019 (effective 5/1/18)	Dr. T. Dwayne McCay, President

Capitalization and Depreciation Policy

Introduction

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

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 estimated useful life of the asset.

Definitions

Capitalization: In accounting, Capitalization is when the costs of acquiring a long-term 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 will be for all assets greater than $5,000 and with a useful life that is greater than 1 year.

Depreciation: Depreciation is the process of allocating the cost of a tangible asset over a period of 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, if applicable.

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	5 to 10 years
Computer Hardware	3 to 10 years
Computer Software	3 to 5 years (amortized)
Furniture and Equipment	5 to 15 years
Library books	12 years
Airplanes	5 to 12 years

The University maintains a more detailed listing of useful lives to assist the Accountant, who sets up the depreciation. It is important that the purchaser of an asset identify any manufacturer's recommended useful life, if available, and include such in the purchasing documentation.

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 is 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, Leased Equipment must be capitalized if the lease agreement includes any of the following criteria:

- Transfer of ownership of the property
- 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 FOLLOWING IS A BRIEF DESCRIPTION OF ITEMS TO BE CAPITALIZED:

Land

Land is capitalized and included with the University's long-term 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, and for which there is a published market or list price, will be the item's published price. If the value of the item exceeds $5,000 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

Renovations and improvements of buildings and structures that add to the value of the building will be capitalized. Completed renovations and improvements are recorded as unique assets and are depreciated over their determined useful life/recovery period. Renovations that only repair or modify current structures should be expensed. Examples of capital improvements include:

- 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 classroom, office, or work space
- 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.

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 up-fitting 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 up-fitting 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 up-fitting 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 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.

Roads, Hardscaping, and Landscaping: 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. 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 or hardscaping 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 the building or building renovation project cost. 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 becomes serviceable.

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.

Recreation Courts, Athletic Fields, and Swimming Pools: Includes the initial design, engineering, surveying, site development, and construction costs of these facilities.

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 System, assigning an identity to each asset and tracking the asset over its useful life, calculating its depreciation from its Placed-In-Service date. To ensure that capitalized assets have been recorded and can be properly tracked, an identification tag (when possible) 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 identification. The University will conduct periodic inventory counts of its fixed assets and reconcile the physical count with the fixed asset records.

The Controller's Office and the Property Administrator's Office must be notified when an asset is moved, reassigned, retired, or disposed. A department may be held accountable for a portion or all of the University's investment in an asset that is removed or has been disposed without notifying the Controller or the Property Administration Office.

The accuracy of the University's accounting records is dependent on timely and accurate reporting of asset moves and disposals. When an asset is disposed, 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.

When an asset is moved within a building, between buildings, or to/from temporary or permanent storage, the move should be reported to the Property Administrator's Office. Transfers of equipment (assets) from one department to another should also be reported, even if the asset remains in the same physical location.

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 comes to the University from another institution while in the middle of one or more grants, and brings with him/her equipment purchased by the related grant(s), a summary of the specific equipment must be provided to the Office of Sponsored Programs (OSP), to allow for the proper inventory of the equipment. If a faculty member leaves the University while in the middle of one or more grants, a similar inventory summary of grant assets and notification to the OSP is required. The OSP will provide the new institution with an official listing of grant funded equipment the faculty member is bringing. If an asset purchased with grant funds is to be transferred or retired, the OSP will contact the granting agency, if necessary, to determine the appropriate procedure for disposal of the asset(s). This will be done when the fund is closed.

Group Purchases

Equipment or furniture purchased in conjunction with a new building, building renovation, new program or clinic, but not having a unit cost of $5,000 or more will be capitalized as a group purchase and depreciated over the relevant asset class recovery period, such as furniture – 10 years.