

Regulations of the University of North Texas System	Chapter 08
08.9000 Asset Capitalization	Fiscal Management

08.9001 **Regulation Statement.** The University of North Texas System shall identify, measure, and record assets to properly capitalize and report the assets and associated costs in accordance with State Property Accounting policies prescribed by the Texas Comptroller of Public Accounts and Generally Accepted Accounting Principles . Assets and costs are capitalized based on the nature of the expenditure and whether utility derived from the expenditure benefits the current year and one or more future years.

08.9002 **Application of Regulation.** System Administration and Institutions.

08.9003 **Definitions.**

1. **Amortization.** “Amortization” means the periodic charge to income that results from a systematic and rational allocation of cost over the life of an intangible asset. Amortization is analogous to depreciation of tangible assets.
2. **Capital Assets.** “Capital assets” means real or personal property that has a value equal to or greater than the capitalization threshold for the particular classification of the asset and have an estimated life of greater than one year. They include: land, land improvements, buildings, building improvements, facilities and other improvements, machinery and equipment, vehicles, infrastructure, leasehold improvements, works of art and historical treasures and construction in progress (excluding projects from outside developers). A capital asset is to be reported and, with certain exceptions, depreciated in government-wide statements. In the government-wide statements, assets that are not capitalized are expensed in the year of acquisition.
3. **Capitalized Costs.** “Capitalized Costs” means costs directly attributable to the acquisition of the asset, including sales tax, transportation or freight costs, and installation costs are considered part of the recorded cost of the capital asset. Incidental acquisition charges, such as extended warranties or

maintenance agreements, additional parts or consumable items are not considered part of the recorded cost of the capital asset.

4. Capitalized Interest. “Capital Interest” means interest that is incurred on projects to develop fixed assets that require a period of time to get them ready for their intended use. The capitalized interest is considered part of the recorded cost of the capital asset.
5. Depreciation. “Depreciation” means the periodic charge to income that results from a systematic and rational allocation of cost over the life of a tangible asset. Depreciation is analogous to amortization of intangible assets. Depreciation is only a method of cost allocation, not a means of determining or presenting current valuation of assets
6. Fixed Assets. “Fixed Assets” means a non-current asset, such as equipment and property. Typically, fixed assets cannot easily be converted into cash and have useful lives that provide future benefit to UNT System.
7. Estimated Useful Life. “Estimated Useful Life” means the estimated number of months or years that an asset will be able to be used for the purpose for which it was purchased. An asset must have an estimated useful life greater than one year to be considered for capitalization and depreciation.
8. Lease. “Lease” means any lease or sublease of a tangible or intangible asset. Leases are classified as capital or operating.
9. Leasehold Improvement. “Leasehold Improvement” means permanent betterments to the fixed asset that revert back to the owner at the end of the lease term. The value of the leasehold improvement should be capitalized (Note: only the value of the leasehold improvement is capitalized).

08.9004 Procedures and Responsibilities.

1. Capitalization of Costs. UNT System shall capitalize all costs that are directly attributable to the acquisition or construction of tangible and intangible property and equipment, as well as leasehold and other improvements that will continue to be a benefit beyond one year. UNT System shall capitalize costs over the useful life of the Capital Asset. As such, the allocated cost shall be captured on the Statement of Net Position rather than the Statement of

Revenues, Expenses, and Changes in Net Position. Capitalized Costs should include all ancillary charges necessary to place the asset into its intended location and condition of intended use.

Responsible Party: Each UNT System Accounting Department

2. Classifications.

- a. Land and Land Improvements. The costs to be capitalized as land include all costs connected with the acquisition of the land. These costs include but are not limited to the cost of the land, appraisals, professional services, title insurance and other miscellaneous fees and costs associated with the acquisition.
- b. Building and Building Improvements. The costs to be capitalized as a building include associated costs related to the acquisition or construction of the building. Acquisition costs include but are not limited to the cost of the building, professional services, appraisals, title insurance and other miscellaneous fees and costs associated with the acquisition. Construction costs include, but are not limited to the cost of professional services, test borings, materials, and site preparation. Building improvements to be capitalized are significant alterations or structural changes that increase or amend the usefulness, enhance efficiency or prolong the useful life of the building for a period of greater than one year. The Texas Comptroller of Public Accounts State Property Accounting (SPA) policy shall be referenced for capitalization thresholds.
- c. Equipment. Equipment to be capitalized refers to an item of non-expendable tangible personal property with a useful life of more than one year. Equipment may be moveable or fixed. "Moveable equipment" refers to equipment which can be easily moved from one area to another. "Fixed equipment" is equipment which is attached or permanently fastened to a building that cannot be removed without costly or extensive alterations to the building or area to which it is affixed. Equipment repair costs to be capitalized are material, extraordinary repairs or equipment replacement costs that are made to extend the useful life of equipment in excess of one year. UNT System shall evaluate the repair or replacement cost to determine whether it should be capitalized. The Texas Comptroller of Public Accounts SPA policy shall be referenced for capitalization thresholds.

- d. Library Acquisitions. The cost to be capitalized for general library acquisitions (including subscriptions that provide beyond the subscription term with no further payment), rare books, museum collectibles, and artwork acquisitions are capitalized at historical cost. The costs are the associated expenses or fair value at date of donation. Rare books and other collectibles are not depreciated. Purchases of \$5,000 or more for books and materials for a professional, academic or research library shall be capitalized. The Texas Comptroller of Public Accounts SPA policy can be referenced for guidance regarding the specifics of library books and reference materials to capitalize. Library capital assets shall be depreciated on a straight line basis (historical cost minus residual value, divided by useful life) as noted below in “Depreciation” (Note: traditional subscriptions that are annually renewed general interest newspapers or periodicals which are not retained and/or have no academic value are expensed). The fees paid for the right to access databases or publications that are permanently accessible regardless of paying any future fees shall be capitalized. All other fees that are paid annually for the right to access databases or publications that are only accessible for a specified period of time (i.e. one year) are expensed. Traditional books, E-books, and reference materials shall be capitalized.

- e. Intangible assets. An intangible asset should be recognized in the Statement of Net Position as an asset only if it is considered identifiable, per Governmental Accounting Standards Board (GASB) Statement No. 51 Accounting and Financial Reporting for Intangible Assets. The statement should be referenced for the specified-conditions approach to recognizing intangible assets that are internally generated. Outlays associated with the development of intangible assets which are internally generated should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. Internally generated computer software can also be recognized as an intangible asset. Per GASB Statement No. 51 and the Texas Comptroller of Public Accounts SPA policy, software is reported as an amortized intangible asset on the Statement of Net Position

Responsible Party: Each UNT System Accounting Department

- 3. Capitalizing start-up costs. UNT System shall capitalize start-up costs that are incurred during the acquisition of a Capital Asset if certain criteria are met.

Start-up costs shall be identified to ensure that those relating to the acquisition of Capital Assets are being appropriately coded for capitalization at the point of procurement. Start-up costs are initial costs associated with the Capital Asset that are incurred in order to place the Capital Asset in service for its intended use. Specific costs are referred to above in classifications.

Responsible Party: Each UNT System Accounting Department

4. Capitalizing Interest cost. UNT System shall capitalize construction period interest for Capital Assets in accordance with Financial Accounting Standards Board Statement (FASB) Statement No. 34 Capitalization of Interest Cost. Capitalized Interest may be incurred on projects to develop Capital Assets that require preparation or construction for their intended use.

Responsible Party: Each UNT System Accounting Department

5. Depreciation. UNT System shall depreciate or amortize Capital Assets in accordance with SPA and Generally Accepted Accounting Principles (GAAP). Property, plant, equipment, library acquisitions (other than collections, rare books, maps, and art), and intangible assets shall be depreciated over their useful life using the straight line method.

Responsible Party: Each UNT System Accounting Department

6. Leases. UNT System shall conduct an analysis of all leases to determine the classification of a fixed asset lease as either capital or operating. Leases meeting the following criteria are considered capital leases. Additionally, leasehold improvements under a capital lease shall be capitalized.

Capital lease criteria:

- a. The lease contract contains a bargain purchase option at the end of the lease term;
- b. Ownership of the leased property will transfer to the lessee at the end of the lease term;
- c. The lease term is greater than or equal to 75% percent or more of the economic life of the leased property; or

- d. The present value of the minimum lease payments is greater than or equal to 90% of the of the leased property's fair value. The valuation must be performed at the beginning of the lease term and shall exclude costs such as insurance, maintenance, and taxes.

Responsible Party: Each UNT System Accounting Department

- 7. Impairment. UNT System shall no less than annually evaluate and record capital asset impairment in accordance with GASB Statement No. 42 Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. Capital Assets are impaired when service utility has declined significantly and the event or change is outside the normal life cycle of the Capital Asset.

Responsible Party: Each UNT System Accounting Department

References and Cross-references:

Government Accounting Standards Board Statement No. 42
Government Accounting Standards Board Statement No. 51
Financial Accounting Standards Board Statement No. 34
Texas Comptroller of Public Accounts State Property Accounting Process User Guide,
Chapter 1, Capital Asset Acquisition Cost

Forms and Tools: N/A

Approved: May 28, 2015

Effective: May 28, 2015

Revised: