University Policy Overview

It is the policy of UTMB to maintain accurate and complete records of property, plant, and equipment held and to capitalize and depreciate them according to appropriate accounting and regulatory requirements. Once an asset's cost is capitalized, it will be depreciated over the useful life of the asset based on either Experience Based Useful Life as determined by actual UTMB usage or the American Hospital Association (AHA) tables. Absent, either of these policies, we will use the State Property Accounting (SPA) codes.

The general criteria for defining a capital asset are the significance of the amount expended and the useful life of the asset, or in the case of repairs and improvements, the extent to which the useful life of the asset is extended or the value of the asset is increased. Some federal and state laws include definitions of capital assets and include requirements for capitalization thresholds. Also, Generally Accepted Accounting Principles (GAAP), Medicare guidelines, and other professional organization principles and guidelines provide guidance in the determination of capital assets.

UTMB is required to follow state laws regarding capitalization of assets. Also, because UTMB receives reimbursement from the federal Medicare and Medicaid programs and federal contracts and grants, any federal laws, regulations, or manual instructions regarding capitalization of assets must be followed and preempt state law.

Purpose

- Establishes uniform guidelines for the collection of information necessary to properly capitalize the cost of assets.
- Provides for consistent and accurate capitalization of all assets held by UTMB as required for internal, external (GAAP), and regulatory reporting required for Federal sponsors and agencies.

Scope

- For financial statement and government reporting purposes, capital assets include property, plant, and equipment (land, buildings, equipment, leasehold improvements, and capital improvements and betterments of existing assets that extend the life or increase the value or productivity of the asset), construction in progress, outlay for software development as defined by GASB 51, and leased property classified as capital as defined by GAAP.
University Policy Detail

Requirements for Capitalization

Expenditures at Acquisition

To be considered for capitalization, and thus subject to depreciation, an asset must fulfill three characteristics:

- The asset must be acquired (purchased, constructed, or donated) for use in operations, and not for investment or sale.
- The asset must have a useful life of at least two years.
- The asset must meet the thresholds listed on Schedule D.

Expenditures Subsequent to Acquisition

These expenditures include the cost for renovations, betterments, or improvements that add to the permanent value of the asset, make the asset better than it was when it was purchased, or extend its life beyond the original useful life. To capitalize these costs, the improvements must fulfill at least one of the following criteria:

- The useful life of the asset is increased.
- The productive capacity of the asset is improved.
- The quality of units or services produced from the asset is enhanced.
- The safety of the asset is increased significantly.

To properly capitalize the costs associated with an asset, it is necessary to maintain accurate and complete records pertaining to the cost of each asset.

Procedures

<table>
<thead>
<tr>
<th>Determine Appropriate Cost of Fixed Asset</th>
<th>Determine Non-Capitalizable Expenses</th>
<th>Capitalize Fixed Asset for GAAP, CASB &amp; Tax Reporting</th>
<th>Record Yearly Depreciation for Each Fixed Asset Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refer to Definition and Classification of Capitalized Costs (Schedule A) and Building Improvements (Schedule B).</td>
<td>Refer to Non-Capitalizable Expenses (Schedule C).</td>
<td>Refer to Asset Capitalizations Thresholds (Schedule D).</td>
<td>Refer to Depreciation Methods (Schedules E and F).</td>
</tr>
</tbody>
</table>
Assets within each category that do not meet the threshold for capitalization (Schedule C) will be treated as an expense in the year acquired.

Responsibility

The Office of Finance is responsible for writing, updating, and interpreting this policy. The department of Asset Management is responsible for ensuring compliance with this policy. For assistance in interpreting this policy, please contact the Finance-Asset Management department.

Schedule A: Definition and Classification of Capital Costs

The basis for accounting for property, plant, and equipment is historical cost. All normal expenditures of readying an asset for its extended use are capitalized. The information below identifies specific costs that can be capitalized for individual categories of assets.

Land

The following costs related to the acquisition of land should be capitalized:

- Purchase price
- Appraisals
- Professional services
- Title insurance
- Title searches
- Broker's fees
- Closing costs

If land is purchased as a building site, certain expenses may also be capitalized:

- Razing and removal
- Land improvements (include paving, tunnels, underpasses, on-site sewer and water lines, parking lots, shrubbery, fences, walls, etc. (if replacement is the responsibility of UTMB)).
- Site improvements
- Landscaping associated with new construction

Buildings

Buildings include the basic structure or shell and additions thereto. Costs related to the acquisition or construction may be capitalized should the cost exceed $100,000.

It also includes permanent attachments to buildings, such as wiring, electrical fixtures, plumbing, elevators, heating systems, air conditions systems, etc.

The following costs related to the acquisition, construction, or improvement of a building should be capitalized in the fiscal year incurred. See below for definition of building improvements.
Acquisition costs include:

- Purchase price
- Professional services
- Appraisals
- Title insurance

Construction costs include:

- Professional services
- Appraisals
- Test borings
- Site preparation
- Materials
- Labor
- Overhead

**Tangible Personal Property**

Capitalized costs of tangible personal property are those costs associated with the acquisition or construction of tangible personal property. The property must have a useful life of two years or more and cost $5,000 or greater per individual unit. Tangible personal property includes equipment, furniture, fixtures, and vehicles.

The acquisition costs include:

- New invoice price
- Transportation
- Installation
- Duty
- In-transit insurance

In addition to the costs listed above, all costs associated with modifications, attachments, accessories, or auxiliary apparatus necessary to make the property usable for its intended purpose may also be capitalized.

For newly constructed or newly leased facilities, all personal property that fall below the threshold may be aggregated and capitalized if the total aggregated costs equal or exceed $5,000 as long as the property has a useful life or two years or more. Additionally, for all major renovations in excess of $5 million dollars, all personal property will follow the same guidelines. Please refer to Schedule B.

**Software**

Per GASB 51, Software is categorized into two different categories: commercially available software and internally generated software. Additionally, commercially available software that is purchased and then modified using more than minimal incremental effort should be considered internally generated. As such the Texas State Property Accounting guide establishes different thresholds for each category.

**Commercially Available Software**
Commercially available software must have an estimated useful life of two years or more and the costs must meet or exceed $100,000 to be capitalized and amortized over its useful life. The capitalization threshold is based on the aggregate of the total cost of the purchase to include software licenses (if the period of use is greater than 1 year), license fees, testing fees, setup fees, and delivery cost. Fees paid for training, conversion costs and software maintenance may not be capitalized and must be expensed.

**Internally Generated Software**

Software developed for internal use includes software that is developed or modified solely to meet the University’s internal needs and where no substantive plan exists or is being developed to market the software externally. There are three stages in the lifecycle of software development:

1. **Preliminary Project Stage**: Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of existence of needed technology, and the final selection of alternatives for the development of the software. These costs should be expenses as incurred.
2. **Application Development Stage**: Activities in this stage include the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing, including the parallel processing phase. Cost that fall within this classification should be capitalized if they meet the capitalization threshold of $1 million.
3. **Post-Implementation/Operation Stage**: Activities in this stage include application training and software maintenance. Cost within this stage should be expensed as incurred.

Data conversion should be considered an activity of the application development stage only to the extent it is determined to be necessary to make the computer software operational. Otherwise, it should be expensed as incurred.

Outlays associated with internally generated software or software that is already operational should be capitalized only to the extent the modification results in either an increase in functionality, an increase in efficiency, or an extension of the useful life of the software.

**Leasehold Improvements**

All costs related to the improvement of leasehold may be capitalized should the cost exceed $100,000. Leasehold improvements include betterments and additions made by UTMB to leased property. The capitalized costs of leasehold improvements are all costs associated with structural alterations, renovation, or improvements made by the lessee to leased real property.

**Donated Assets**

Donated property, plant, or equipment that meet the requirements for capitalization and that will be in service by the University will be capitalized at the fair market value of the donation at the time of donation. Donated assets that will be resold should not be capitalized.

**Interest Costs during Construction**

The capitalized costs of interest during construction for debt-financed projects are the costs of interest related to the acquisition or construction of an asset. The interest costs can be capitalized during the period of time that is required to complete and prepare the asset for its intended use.
The capitalization of interest costs is accomplished by debiting (increasing) the Construction in Progress (CIP) account for that particular project.

Infrastructure

The capitalization threshold for depreciable infrastructure is $500,000. Infrastructure is a long-lived capital asset that normally is stationary in nature and can be preserved for significantly more years than most capital assets. Infrastructure assets are often linear and continuous.

Examples of Expenditures to Capitalize as Infrastructure:

- Highway and rest areas
- Roads, streets, curbs, gutters, sidewalks, fire hydrants
- Bridges, railroads, trestles
- Canals, waterways, wharf, docks, sea walls, bulkheads, boardwalks
- Dam, drainage facility
- Radio or television transmitting tower
- Electric, water and gas (main lines and distribution lines, tunnels, etc.)
- Fiber optic and telephone distribution systems (between buildings)
- Light system (traffic, outdoor, street, etc.)
- Signage
- Airport runway, strip, taxiway or apron

Library Books

Professional, academic and research library books and materials should be capitalized and depreciated if the annual purchase meets the $5,000 threshold.

Works of Art and Historical Treasures

Works of Art and Historical Treasures are collections or significant individual items that are owned by a state agency and are not held for financial gain but rather for public exhibition, education or research as part of a public service. Collections or individual items that are protected and cared for or preserved are subject to an organizational policy that requires the proceeds from their sales to be used to acquire similar items.

Exhaustible collections or items are items whose useful lives are diminished by display or educational or research applications.

Inexhaustible collection or items are items whose economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long. Because of their cultural, aesthetic or historical value, holders protect and preserve these assets more than they do for similar assets without such value.

While both exhaustible and inexhaustible collections should be capitalized, exhaustible collections should be depreciated whereas inexhaustible collections should not be depreciated.

Examples of Expenditures to Capitalize as Works of Art and Historical Treasures

- Collection of rare books and manuscripts
- Maps, documents and recordings
- Works of art such as paintings, sculptures and designs
- Artifacts, memorabilia and exhibits
Unique or significant structures

Schedule B: Building Improvements

Building improvements are significant alterations, renovations, or structural changes that meet, or exceed $100,000 and that increase the usefulness of the asset, enhance its efficiency, or prolong its useful life by at least two years.

Building improvements may include interior or exterior construction of a building or building systems, such as electrical or plumbing systems. They may also include the completion of interior or exterior appointments or finishes, so long as they are done as part of a significant alteration or renovation.

Categories of Building Improvements Include:

<table>
<thead>
<tr>
<th>Categories</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alterations</td>
<td>A change in the internal arrangement or other physical characteristics of an existing asset so that it may be effectively used for a newly designated purpose.</td>
</tr>
<tr>
<td>Example:</td>
<td>• Changing classroom space into office space</td>
</tr>
<tr>
<td>Renovations</td>
<td>The total or partial upgrading of a facility to higher standards of quality or efficiency than originally existed.</td>
</tr>
<tr>
<td>Example:</td>
<td>• The transition of an old research laboratory into one with state-of-the-art equipment, lighting, or other subsystems</td>
</tr>
<tr>
<td></td>
<td>• Renovating space to be compliant with ADA requirements.</td>
</tr>
<tr>
<td>Betterment, Renewal, Replacement</td>
<td>The overhaul or replacement of major constituent parts that have deteriorated because of the elements or usage. The deterioration has not been corrected through ongoing or required maintenance.</td>
</tr>
<tr>
<td>Example:</td>
<td>• Replacement of old or broken windows with a new thermal variety</td>
</tr>
</tbody>
</table>

If during the phase of improving a building, the current building components are not fully depreciated, Asset Management will work with facilities to test the building for impairment and appropriately account for any changes required to recognize that impairment.
Schedule C: Non-Capital Expenses

Costs that neither significantly add to the permanent value of a property nor prolong its intended useful life are expensed. The following types of plant costs are expensed:

| Maintenance | The costs associated with recurring work required to preserve or immediately restore a facility to such condition that it can be effectively used for its designed purpose. Maintenance includes work done to prevent damage to a facility.  
Example:  
• Custodial services; repainting a room; fixing a leaky faucet |
| --- | --- |
| Preservation/Restoration | The costs associated with maintaining special assets or returning them to a level of quality as close to the original as possible.  
Example:  
• Returning a stained glass window to its former level of beauty or acting to prevent any further deterioration |

Schedule D: Asset Capitalization Thresholds

Below are the thresholds for capitalization of assets for reporting purposes.

The thresholds represent the dollar value at which an asset is capitalized. Purchases less than the dollar value thresholds should be treated as an expense.

**Note**: Threshold dollar values do not apply to “Land” assets.

All “Land” acquisitions are capitalized.

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Capital Threshold*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$ 0</td>
</tr>
<tr>
<td>Buildings</td>
<td>$ 100,000</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>$ 0</td>
</tr>
<tr>
<td>Equipment</td>
<td>$ 5,000 **</td>
</tr>
<tr>
<td>Building Improvements</td>
<td>$ 100,000</td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>$ 100,000</td>
</tr>
</tbody>
</table>
Infrastructure $500,000
Software $100,000 (purchased) or $1,000,000 (internally generated)
Land Improvements $0

Notes:  
* Thresholds apply to costs at purchase or construction/fabrication and the fair market value of donated assets to be used in operations at the time of the donation.

** This policy allows threshold to be met by aggregate total of equipment purchases when related to building acquisitions, new construction, and major renovations in excess of $5 million.

Schedule E: Asset Depreciation Methods

With the exception of land, all capitalized assets should be depreciated using the straight-line method over the useful life of the asset class. An asset's life is the period of time over which services are expected to be rendered by the asset. The calculation of depreciation should be based on historical cost (capitalized costs).

The estimated useful life of the asset will be determined using the American Hospital Association's most recent edition of their publication titled Estimated Useful Lives of Depreciable Hospital Assets unless a shorter or longer useful life is indicated based on documentation of actual UTMB usage of the asset. Medicare guidelines require intermediary approval for any useful life that differs from the AHA Useful Lives. Therefore, any deviation from the AHA guidelines must have prior approval of UTMB's Medicare intermediary.

Note: * Buildings are componentized.

Schedule F: Depreciation Expense

Depreciation of capitalized assets will commence in the year the item is placed into service or use. The half year convention will be utilized for equipment acquisitions. All other capital assets acquired during the reporting month become effective for depreciation on the first day of the reporting month. For example: An asset that is placed into service on April 15th will begin start depreciating as if placed in service on April 1st.

The annual depreciation expense will be charged in the general ledger to the appropriate entity.