

LOYOLA UNIVERSITY CHICAGO



Capital Asset Management Policy

Property, Plant, and Equipment Capitalization and Depreciation

Policies and Procedures

Table of Contents	Page
<u>University Policy Overview</u>	3
<u>Requirements for Capitalization</u>	3
<u>Responsibility</u>	3
<u>Definition and Classification of Capital Costs</u>	3
- <u>Work in Progress</u>	3
- <u>Buildings</u>	3
- <u>Land</u>	4
- <u>Building and Land Improvements</u>	4
- <u>Non-Movable Equipment</u>	4
- <u>Movable Equipment</u>	5
- <u>Software</u>	5
- <u>Leasehold Improvements</u>	6
- <u>Interest Cost During Construction</u>	6
- <u>Leased Assets</u>	7
- <u>Non-Capitalizable Expenses</u>	7
- <u>Artwork</u>	8
<u>Fixed Assets funded by Federal Grants and LUC Does Not Hold Title</u>	8
<u>Depreciation Policy</u>	8
<u>Physical Inventory</u>	9
<u>Transfer, Sale, and Disposal of Capital Assets</u>	10

University Policy Overview

It is the policy of Loyola University Chicago to maintain accurate and complete records of property, plant, and equipment owned by the University and to capitalize and depreciate these assets according to US Generally Accepted Accounting Principles (GAAP) and regulatory requirements. Except for Land, capitalized assets are depreciated in a systematic manner over their estimated useful life.

Requirements for Capitalization

To be considered for capitalization as part of the University's Asset Management System, and thus subject to depreciation, an asset must fulfill three characteristics:

- 1) The asset must be acquired by the University (purchased, constructed, or donated) for use in University operations, and not held for sale.
- 2) The asset must have an estimated useful life of more than one year.
- 3) The cost of an asset must be greater than or equal to \$5,000 (\$100,000 for buildings and building/land improvements).

Responsibility

The Office of General Accounting is responsible for writing, updating and interpreting this policy. Each University Department¹ is responsible for enforcing this policy, safeguarding all assets purchased for the Department and assisting with the physical inventory process. Departments may maintain their own database or spreadsheet of assets to track asset locations and to ensure assets are safeguarded against theft or loss. Each Department's assets may be subjected to internal and external audit verifications of fixed assets documentation.

Definition and Classification of Capital Costs

Work in Progress

Costs of capital projects are initially booked in the Work in Progress (WIP) account. Costs in WIP are placed in service, to the appropriate asset classification, once a capital project is complete and placed into service. Amounts recorded to WIP are reviewed monthly and costs that do not meet the capitalization criteria are expensed as needed.

¹ The term "University Department" or "Department" refers to Schools, Institutes, Centers, as well as Academic, Research, Student Support, and Administrative Departments operating as part of Loyola University of Chicago

Buildings

Buildings are valued at the purchase price or construction cost. Cost includes all charges applicable to the building (i.e. appraisals, professional services, title insurance etc.) Permanently attached fixtures to the building (i.e. heating and ventilation systems) are included in the cost of the building.

Buildings valued at \$100,000 or above are capitalized and recorded in the Asset Management System.

Donated buildings (or other real estate), if there are no sale plans, are capitalized at the appraised fair market value at the time of donation.

Land

Land is treated as a fixed asset and recorded in the Asset Management System regardless of its cost. Acquired land is recorded at the purchase price plus additional costs such as legal and recording fees, appraisals, professional services, etc. If land is purchased as a building site, razing and removal, relocation and reconstruction of property of others (such as telephone and power lines) may also be capitalized. No depreciation expense is recognized for assets classified as Land.

If land and building are acquired as a single parcel, the value of the land must be determined separately from the building and recorded as Land. Donated land or land that is obtained by means other than purchase is recorded at fair-market value based on appraisal at the time of acquisition.

Building and Land Improvements

Land improvements include items such as excavation, driveways, sidewalks, parking lots, flagpoles, retaining walls, fencing, outdoor lighting, and other non-building improvements intended to make the land ready for its intended purpose.

To capitalize a building improvement/renovation or land improvement cost, both of the following criteria must be met:

- 1) The cost must equal or exceed \$100,000 capitalization threshold.
- 2) The renovation or improvement must either:
 - a. Significantly extend the useful life of the original asset, or
 - b. Increase the future service potential of the asset.

If both of these criteria are met, the cost must be capitalized and recorded separately in the Asset Management System at total purchase or construction cost. Expenditures not meeting these criteria must be classified as a maintenance expense. Both building and land improvements are subject to depreciation over their useful life.

Non-Movable Equipment

Equipment that is part of a building's infrastructure (HVAC, boilers, water heaters, etc.) is considered "non-movable" equipment. Such equipment is capitalized if the equipment has a useful life of at least one year and cost in excess of \$5,000 per individual unit. Non-movable equipment is maintained in the Asset Management System and classified as part of Buildings.

Movable Equipment

Movable equipment includes equipment, furniture, fixtures, and vehicles. Expenditures for movable equipment are capitalized at the invoiced cost plus any applicable transportation and installation charges. Warranty costs are excluded. The equipment must have a useful life of at least one year and cost in excess of \$5,000 per individual unit.

There is an exception to the capitalization threshold of \$5,000 per individual unit of movable equipment. As part of a capital project, cost may be incurred to fit out space with new furnishings and equipment. When such purchases are made as part of a capital project, if the aggregate cost of these expenditures exceeds \$100,000 and the items have a useful life of at least one year, the costs may be capitalized even though some of the individual items cost less than \$5,000.

Because the useful lives of furnishings and equipment not affixed to the building differ from the useful life of the building, these assets are accounted for and recorded in the Asset Management System as Equipment or Furniture as appropriate.

All capitalized movable equipment (excluding furniture) must be tagged to maintain a control of assets owned by the University. Tagging is important to:

- Control the location of all physical assets
- Aid in the physical inventory
- Aid in maintenance of fixed assets, and
- Assist in communication between the Office of General Accounting and the assets' users.

Grant funded equipment (for example lab equipment) is tagged with the different color inventory tags that specifically indicate the equipment was acquired using grant funds. Note: Equipment purchased on sponsored grants or contracts belongs either to the agency funding the project or the University. Refer to the section below regarding grant funded assets to which the University does not hold title.

Once a project is complete and assets are capitalized, tags are sent out to each Department's contact person so the equipment can be tagged.

Software

Cloud Computing Arrangements (CCA) / Software-as-a-Service (SaaS): Note that this Policy does not apply to CCA / SaaS or related Implementation Costs. See separate policy for [CCA/SaaS Arrangements](#) and related [Implementation Costs](#).

Internal Use Software (non-CCA/SaaS): Generally, all software purchased or developed for internal use is expensed and not capitalized. However, internal use software may be capitalized if it was purchased for more than \$100,000 with a useful life of more than one year. Fees paid for training, conversion costs, and software maintenance may not be capitalized and must be expensed. The external costs of upgrades and enhancements that enable the internal use software to perform tasks that it was previously incapable of performing may be capitalized; otherwise such costs are not capitalized and must be expensed.

Leasehold Improvements

In situations where the University is the lessee, costs of leasehold improvements are capitalized when all costs associated with structural alterations, renovation, or improvements made by the lessee to the leased real property exceed \$5,000. These improvements will revert to the lessor at the expiration of the lease, and therefore costs are depreciated over the shorter of the remaining lease period or the useful life of the leasehold improvement.

In situations where the University is the lessor and is making improvements to space that will be used by a third party tenant, such spending should follow the criteria for **Building Improvements** discussed earlier in this Policy.

Interest Costs During Construction

The capitalized cost of interest during acquisition or construction of assets is the portion of interest incurred during the acquisition or construction periods that theoretically could have been avoided. According to GAAP, the interest rate for capitalization purposes is to be based on the rates on the University's outstanding borrowings. The statement permits use of the rate(s) on specific new borrowing(s) directly associated with a qualifying asset. A weighted average of the rates on other borrowings is to be applied to expenditures not covered by specific new borrowings.

Per GAAP, interest cost should not be capitalized during the acquisition or construction of an asset to the extent that funds are available from restricted gifts and grants. Such an exemption is appropriate only if the gift or grant is restricted by the donor or grantor to the acquisition/construction of the specified asset.

Only major capital projects (total budget greater than \$2 million) are considered for interest capitalization. The budget would also include any land or building acquisition costs if the land or building was specifically acquired as part of the capital project.

The interest costs can be capitalized during the period of time that is required to complete and prepare the asset for its intended use and amortized over the life of the related asset as part of depreciation expense.

Leased Assets

Departments should contact General Accounting regarding asset lease/rental arrangements to ensure the University is recognizing the right-of-use (ROU) assets and liabilities associated with a lease. Departments should also complete General Accounting's annual survey of lease arrangements.

In accordance with GAAP (ASU No. 2016-02, Leases (Topic 842)), when the University is a lessee, the University must recognize the rights and obligations of the lease as an asset and liability on the University's balance sheet. This is required for both operating and finance leases.

- Operating Leases: A contract that permits the use of an asset without transferring the ownership rights of said asset
- Finance Lease: A contract that permits the use of an asset and transfers ownership after the lease period is complete.

For purposes of recognizing the ROU asset and associated liability on the University's balance sheet, the University has set the lease payment materiality threshold at \$100,000 per year and a lease term (including renewal terms) of more than one year. Leases which do not meet these thresholds, including leases when the term is 12 months or less, are not recorded on the University's balance sheet. Renewal or termination options that are reasonably certain of exercise (or non-exercise) are included in the lease term.

Right of use assets are not recorded in the Asset Management System during the lease period. However, at the end of the term for a finance lease, if the underlying asset is purchased by the University, the remaining ROU asset balance is reclassified and accounted for as a fixed asset in the Asset Management System.

Non-Capitalizable Expenses

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

- Repairs and 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 designated purpose. Maintenance includes work done to prevent damage to a facility, e.g. repainting a room or replacing a broken window.
- Preservation/Restoration – the costs associated with maintaining special assets in, or returning them to a level of quality as close to the original as possible.
- Warranty – a limited-time (usually 1-3 years) guarantee that equipment will function and perform as specified by the manufacturer.

Artwork

The University's Artwork (paintings sculptures, historical treasures, etc.) do not meet the GAAP definition of a Collection² and therefore the University capitalizes individual pieces of Artwork and depreciates them over their useful life. Depreciation is not required when the estimated useful life of the Artwork is extraordinarily long.

The University capitalizes Artwork when the value of the individual item exceeds \$5,000. Artwork is valued at cost, if purchased, or at fair value, generally supported by a third-party appraisal, when donated to the University. Capitalized items are recorded in the Asset Management System and categorized as Artwork.

Artwork is typically not tagged so as not to diminish the value of the artwork. The Asset Management records maintained by General Accounting should retain a photo or image of the artwork for physical inventory identification purposes.

Fixed Assets funded by Federal Grants and LUC Does Not Hold Title

Fixed assets acquired with federal financial assistance are subject to property management standards set by the federal government. When the University does not hold title to property acquired with federal funds, the property should not be capitalized in the Asset Management System. All assets acquired with federal funds for which LUC does not hold title must be tracked by Sponsored Program Accounting to ensure that federally funded assets to which LUC does not hold title will not be sold or transferred without following federal property disposition guidelines.

Depreciation Expense

With the exception of Land, all capitalized assets are depreciated using the straight-line method over the estimated useful life of the asset. The estimated useful lives for each asset category are determined by General Accounting consistent with Higher Education industry standards. The calculation of depreciation should be based on historical capitalized costs. Salvage value should generally not be utilized in calculating depreciation, unless the salvage value is specifically known.

Depreciation of capitalized assets will commence in the month the item is placed into service or use. A full month's depreciation will be recorded in the month the asset is placed in service.

² ASU 2019-03 defines Collections (works of art, historical treasures, or similar assets) as assets that meet all of the following criteria:

- They are held for public exhibition, education, or research in furtherance of public service rather than financial gain.
- They are protected, kept unencumbered, cared for, and preserved.
- They are subject to an organizational policy that requires the use of proceeds from items that are sold to be for the acquisition of new collection items, the direct care of existing collections, or both.

LUC does not have an organizational policy requirement noted in the third bullet point above.

Physical Inventory

A physical inventory is taken to verify existence of assets recorded in the Asset Management System and to confirm where they are physically located. Inventories are taken at least once every two years. The process of the biennial inventory is as follows:

- 1) General Accounting will send inventory worksheets listing all Artwork and Movable Equipment assets to the Departments, along with instructions on how to prepare for and properly perform the physical inventory. General Accounting uses the information from the Asset Management System as the source for the inventory worksheets.
- 2) The Department contact or his or her designee shall locate all inventory worksheet items listed, update the inventory worksheet data (in case the location of assets had changed), and return information to General Accounting within the required business days.
- 3) If General Accounting performs the physical inventory for selected assets, a date and time will be arranged to meet with the Department contact or his or her designee to perform the physical inventory. An individual from General Accounting will perform³ the physical inventory.
- 4) Upon completion of the physical inventory, General Accounting will update the Asset Management System as needed and confirm with Departments any missing items
- 5) If an asset is not found during the inventory, the Department will explain the reason for the missing asset and the Department Administrator will approve the write-off of the missing asset. General Accounting will document the missing asset and will review the situation with the Director of General Accounting prior to writing off the asset in the Asset Management System.

Bulk purchases of equipment (where the individual price is less than \$5,000), furniture, and non-movable equipment are excluded from a physical inventory. These types of assets will be disposed of from the Asset Management System once they are fully depreciated.

³ The term "Department Administrator" includes Deans, Chairs and any LUC employee responsible for the administration of a Department's operations, including those employees listed in the financial systems accounting unit authority matrix.

Transfer, Sale, and Disposal of Capital Assets

Unauthorized removal, disposal, or expropriation of University-funded, grant-funded, or Government-owned assets constitutes a serious breach of University policy. This applies to all categories of capitalized assets including movable equipment, furniture, artwork, etc. Departments must properly use and protect all capital assets in their custody.

Grant-funded assets may be transferred, retained, sold, or otherwise disposed of when allowed by the terms and conditions of the grant or any disposition instructions provided by the funding agency.

- assets with a fair market value of \$5,000 or less may be retained, sold, or otherwise disposed of (as outlined in this policy) with no further responsibility to the awarding agency
- assets with a current per-unit fair market value of more than \$5,000 may be retained by the University or sold (as outlined in this policy). The funding agency is entitled to an amount calculated by multiplying the current market value or proceeds from sale by the funding agency's percentage of participation in the cost of the original purchase. If the asset is sold, the funding agency may permit the university to deduct and retain from the agency's share \$500 or ten percent of the proceeds, whichever is less, for its selling and handling expenses.

Any capitalized assets to be removed from the University's possession (by way of sale, transfer, or scrapping) requires prior approval in writing. Departments should obtain and keep on file written approval from a Dean or Department Administrator to remove or dispose of capitalized equipment. In the instance of grant-funded equipment, Sponsored Program Accounting approval is also required. In all cases, the Department must ensure that any sale or transfer is documented consistent with the University's contract policy and the University has title to the equipment prior to any removal from the University.

Once approval has been obtained, the Department must fill out the **Equipment Move and Disposal Form** and send it with the necessary approvals to General Accounting Inventory via email(inventory@luc.edu). The form can be found online at https://www.luc.edu/media/lucedu/finance/pdfs/Equipment_Move_and_Disposal_Form.pdf. This form does not grant approval to dispose of the assets; it only serves to update the Asset Management System.

As mentioned previously in this Policy, the University issues asset tags for movable equipment (excluding furniture). Prior to removing or disposing of movable equipment, Departments need to determine if the equipment was purchased by grant funds or university funds. Capitalized equipment can be identified by asset tag number (label attached to equipment).

- Tags for grant-funded equipment start with a "G"
- Tags for university-funded equipment start with an "L".

If unsure of the funding source, contact General Accounting.

Following is additional information regarding removing capitalized assets from the University's possession.

- **External Transfers**

University-funded⁴ capitalized assets **cannot** be transferred to another entity, but may only be sold or donated with written approval following the process outlined above. Donations must be made to a qualified not-for-profit entity.

Transfer of ownership and/or responsibility of grant-funded equipment to another educational institution or non-profit organization may be allowable. In some cases, written approval or specific disposition instructions from the funding agency may be required. Such transfers should be reviewed and approved by Sponsored Program Accounting (SPA) and the Office of Research Services (ORS).

- To transfer research equipment when allowed by the grant terms and conditions, a written request from the Principal Investigator (PI) to the Department Chair is required. This request must provide a clear description of the equipment, date of purchase, purchase price, University asset tag number, and account number or source of funds used to purchase the equipment. Department Chair may approve the request at their discretion.
- The Department must then compile the written approvals and any specific disposition instructions from the funding agency (if required), the Department Chair, SPA, and ORS (Lakeside / Health Science). The Department then submits the Equipment Move and Disposal Form, including all supporting documentation, to General Accounting.
- The PI or new institution will be responsible for shipping and insuring all equipment that is removed.
- The Department is responsible for ensuring these steps are completed when a PI leaves Loyola University Chicago.

- **Sale of equipment**

University-funded capital assets, including equipment, may be sold with written approval following the process outlined above and consistent with the University's contract policy. As a guideline, the sale price should equal or exceed the remaining book value of the equipment. The book value may be obtained from General Accounting.

Grant-funded equipment may be sold when allowed by the terms and conditions of the grant and any disposition instructions provided by the funding agency. The selling price should be the greater of the net book value or the fair market value of the equipment. Per the above, additional guidelines for the sale of grant-funded assets may apply. Please contact Sponsored Program Accounting for further information regarding the sale of grant-funded equipment.

⁴ "University-funded" refers to any funding sources other than funding from a third-party sponsored program/grant. For the avoidance of doubt "University-funded" includes, operating funds, gift funds, endowments, capital funds, carryforward funds, start up funds, research funds, etc.

There may be tax implications when capital assets are sold. Please contact General Accounting for clarification before the sale.

- **Internal Transfers**

University-funded equipment may be transferred internally within the University with written approval of the receiving Department and by completing the Equipment Move and Disposal Form.

Grant-funded equipment may be internally transferred when allowed by the terms of the grant.

If the transfer is only a change in physical location, without a change of Department ownership and/or responsibility, the Department should still fill out the Equipment Move and Disposal Form so that General Accounting can update the location of the equipment.

- **Scrapped equipment**

Broken or unserviceable equipment may be disposed of as scrap. Every effort should be made to dispose of the equipment in a responsible way, consistent with the University's environmental sustainability practices.

Grant-funded equipment requires approval prior to being considered scrap, please contact SPA.

Departments are responsible for the cost of equipment disposal.