



## Minnesota State Colleges and Universities System Procedures Chapter 7 – General Finance Provisions

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### Guideline 7.3.6 Capital Assets

#### Part 1. Purpose

To account for the capital assets of the Minnesota State Colleges and Universities in conformity with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) pronouncements.

To provide instruction for each college or university to develop campus guidelines to implement and maintain the objective of this procedure.

For proprietary funds to report capital assets in the balance sheet in much the same manner as a commercial enterprise.

#### Part 2. Definitions

##### **Ancillary capital expense**

Expenses incurred, beyond the cost of the capital asset, required to place the capital asset into service.

##### **Capital asset**

An asset with a useful life greater than two (2) years, a cost (or value if donated) greater than a defined capitalization dollar amount, that maintains its identity while in use.

##### **Depreciation**

A process to systematically allocate the cost of an asset over the useful life of the asset.

#### Part 3. Capital Asset Categories

##### **Subpart A. Land and land improvements**

All land purchased or otherwise acquired by the college or university. Land is non-depreciable.

Land improvements would include costs incurred for paving (parking lots, sidewalks, etc.), lighting systems, sewer, water and electric, fencing and similar items. Land improvements occur as a result of increasing the existing level of service in a directly related parcel of land. Additional examples include culverts, yard lighting, landscaping, public water access and other site improvements. Land improvements require maintenance and occasional replacement, therefore; they are depreciable assets.

### **Subpart B. Easements**

Easements are to be accounted for in the same manner as infrastructure.

### **Subpart C. Buildings and improvements**

All buildings purchased, constructed or otherwise acquired for Minnesota State Colleges and Universities will be recorded at original cost plus improvements.

Building improvements include all additions, replacements, major repairs, and reinstallations or rearrangements on existing buildings.

Equipment items purchased in conjunction with new buildings are to be specifically identified and recorded as equipment (see Equipment below).

### **Subpart D. Construction-in-progress**

Construction-in-progress contains amounts expended in one fiscal year on a new construction, land or building improvement or other capital construction project that will be finished in a future year. Depreciation expense for new construction will not be recognized until completion of construction.

### **Subpart E. Vehicles**

Vehicles used in the operation of the system office, college, or university activities with a useful life of two (2) or more years and a value of \$10,000 or more.

### **Subpart F. Equipment**

Tangible property, complete in itself, that is used in the operation of the system office, college, or university activities for two (2) or more years with a value of \$10,000 or more. Equipment is property that does not lose its identity when removed from its location and is not changed materially or expended in use. In addition to equipment with a value greater than \$10,000, all sensitive items, including weapons, must be recorded in the Equipment Module regardless of price and or age.

### **Subpart G. Sensitive items and capital assets purchased with federal funds**

All sensitive items will be entered on the Equipment Module. Examples of sensitive items are weapons (firearms, swords, crossbows, etc.), electronic equipment (computers, projectors, etc.), or other items that could lead to a material loss or liability.

All capital assets purchased with federal funds with a cost of \$5,000 or more will be entered on the Equipment Module, and inventoried, at a minimum, on a two (2) year cycle (see Physical Inventory section below).

### **Subpart H. Property rights related to capitalized leases (capital lease assets)**

Leased assets are to be capitalized if the following criteria are met:

1. The lease transfers ownership to the lessee by the end of the lease term.
2. The lease contains a bargain purchase option.
3. The lease term is equal to 75 percent or more of the estimated life of the leased asset.
4. The present value at the beginning of the lease term of the minimum lease payments less portions representing insurance, maintenance, and taxes paid by the lessor, including any profit thereon equals or exceeds 90 percent of the excess of the fair

value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by the lessor and expected to be realized by the lessor.

**Subpart I. Works of art, historical treasures, and other similar assets**

Works of art, historical treasures, and other similar assets generally have to be capitalized at their historical cost (or estimated fair market value at the time of donation) whether they are held as individual items or in a collection.

**Subpart J. Infrastructure assets**

Infrastructure assets are defined as “long-lived capital asset that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets”. Examples are:

1. Roads
2. Bridges
3. Tunnels
4. Drainage systems
5. Water and sewer systems
6. Dams
7. Lighting systems

**Subpart K. Library collections**

Library collections include but are not limited to:

1. Books
2. Periodicals
3. Microfilmed information
4. Electronically/digitized collections such as: music theatre or movie productions

**Subpart L. Intangible assets**

Intangible assets are assets that are not physical in nature, and primarily include qualifying internally generated computer software used in operations.

**Part 4. Reporting Capital Assets**

Capital assets may be acquired through various methods including direct purchase, construction, donation (gift), internally generated, or by transfer from another college, university, or state agency.

All ancillary expenses for placing an asset into services are to be recorded using the Minnesota State Colleges and Universities object code 4005.

**Subpart A. Capital assets – purchased**

Purchased capital assets will be reported in the statement of net position based on their original historical cost (including capitalized interest costs, if applicable) plus ancillary expenses such as transportation, installation, and site preparation costs.

**Subpart B. Capital assets – donated**

Donated capital assets will be reported in the statement of net position based on estimated fair market value (FMV) at the date of receipt plus any ancillary expenses incurred to place the asset into service. Capital assets donated to a college or university must comply with Board Policy 7.7 Gift and Grants Acceptance.

**Subpart C. Capital assets (intangible) – internally generated**

Intangible capital assets will be reported in the statement of net position based on qualifying outlays.

**Subpart D. Identification of Capital Assets**

All nonexpendable property and sensitive items must be identified by a “Property of the State of Minnesota” label bearing a multi-digit capital asset number.

**Subpart E. Physical Inventory**

A physical inventory of all assets with an acquisition cost or value of \$10,000 or greater must be completed on an annual basis.

A physical inventory of all other assets maintained in the Equipment Module must be completed on a cycle of no less than every three (3) years.

Capital assets purchased with federal funds must be inventoried, at a minimum, on a two (2) year cycle.

**Part 5. Valuation of Capital Assets**

Capital assets must be accounted for at cost or, if the cost is not easily determinable, at estimated historical cost. Donated capital assets are to be recorded at their fair market value (FMV) at the time received.

**Subpart A. Purchase**

The cost of a capital asset includes not only its purchase price, but also ancillary expenses necessary to place the asset in its intended location and condition for use. Estimated costs for assets may be necessary because of a lack of original documents or because establishing original cost is not practical.

**Subpart B. Donations**

Donations of non-cash assets received from donors must be recorded at the FMV plus any ancillary expenses incurred by the college or university to place the asset into service. Donated assets with an estimated FMV of \$10,000 or greater must have an independent third party appraisal or other third party documentation to support the FMV of the donated asset at the time of receipt. The FMV should be for each type of asset; for example, both land and building should have a separate estimated FMV.

Donated assets with an estimated FMV of less than \$10,000 must have third party documentation to support the FMV of the asset received. Sources for documentation can be notes taken from verbal responses made by vendors in the market, copies of information taken from wholesale or retail catalogs, or other industry valuation sources.

### **Subpart C. Internally Generated**

Include outlays for both in-house personnel and third-party contractor personnel, or acquisition outlays to a third-party if greater than minimal additional outlays for internal personnel or third-party personnel are required to achieve the expected level of service capacity.

### **Part 6. Costs Associated With Capitalized Acquisitions**

The accounting and record system of the Minnesota State Colleges and Universities is the Integrated Statewide Record System (ISRS). The Equipment Module is the component of the ISRS system where assets are recorded for tracking and depreciation purposes. All equipment assets with a cost or valuation equal to or greater than \$10,000 are to be recorded in the Equipment Module. The cost of an asset entered onto the Equipment Module includes the cost of the asset and the ancillary expenses incurred to place the asset into service.

#### **Subpart A. Costs to be capitalized associated with land acquisition**

All costs that should be included in the original cost of land include (not all-inclusive listing):

1. Original contract or purchase price
2. Brokers' commissions
3. Closing fees, such as title search, and legal fees
4. Real estate surveys
5. Grading, filling, draining, clearing
6. Demolition costs (e.g., razing of an old building)
7. Assumption of liens or mortgages
8. Judgments levied through suits

#### **Subpart B. Costs to be associated with building acquisition**

All costs that should be included in the original capital cost of the building include:

1. Original contract price of construction
2. Expenses incurred in remodeling, reconditioning, or altering a purchased building to make it available for its intended purpose
3. Excavation, grading or filling land
4. Design and supervision costs
5. Building permits
6. Legal and architectural fees
7. Insurance costs during construction phase
8. Interest costs during construction of proprietary fund buildings

#### **Subpart C. Cost types not to be capitalized**

1. Cost relating to the removal or demolition of buildings, structures, equipment, or other facilities. Two exceptions are as follows:
  - a. Cost to remove or demolish a building or other structure existing at the time of acquisition of land with the intention or removal or demolition to accommodate its intended use (such cost is considered part of the land)
  - b. Cost to remove or demolish a building or other structure with the intention of replacing the old asset (such costs are considered a part of the cost of the new asset)

2. Cost incurred on assets that are not purchased, e.g., surveying, title searches, legal fees, and other expert services on land not purchased
3. Extraordinary costs incidental to the construction of capital assets such as those due to strike, flood, fire, or other casualties
4. Cost of abandoned construction

### **Part 7. Costs Subsequent to Acquisition (Improvements or Betterments)**

Costs incurred to achieve greater future benefits (e.g., improves efficiency, or materially extends the useful life of the asset, etc.) should be capitalized, whereas expenses that simply maintain a given level of service should be expensed. Generally four major types of costs subsequent to original construction are incurred relative to existing capital assets.

#### **Subpart A. Additions, extensions, enlargements, or expansions**

Any addition to a capital asset should be capitalized since a new asset has been created. For example, the addition of a wing to a building or the addition of an air conditioning system increases the service potential of that facility and should be capitalized. Other examples of additions include:

1. Elevator or dumbwaiter
2. Fire alarm systems
3. Security windows
4. Sprinkler systems (internal)
5. Acoustical treatment

#### **Subpart B. Improvements and replacements**

The distinguishing feature between an improvement and a replacement is, an improvement is the substitution of a better asset, having superior performance capabilities (e.g., a concrete floor for a wooden floor) for the one currently used. A replacement is the substitution of a similar assets (e.g., a wooden floor for a wooden floor).

In both of these instances, the college or university should determine whether the expenditure increases the future service potential of the capital assets, or merely maintains the existing level of service. When the determination is made that the future service level has been increased, the new cost is capitalized.

For additions and improvements, the carrying amount of the old assets and associated accumulated depreciation, if applicable, must be removed, if the amount is known. The cost of the new asset should be capitalized. If the original cost and accumulated depreciation are not known, capitalize the additional cost.

#### **Subpart C. Reinstallations and rearrangements**

These are costs that will benefit future periods but do not represent additions, replacements, or improvements. If the original installation cost can be estimated, along with the accumulated depreciation to date, the cost may be handled as a replacement and subpart B Improvements and replacements, must be followed. Where the original cost is not known, the reinstallation or rearrangement cost should be capitalized.

### **Subpart D. Repairs (ordinary and major)**

Repairs maintain the capital asset in its original operating condition.

Ordinary repairs are expenses made to maintain plant assets in operating condition. Preventive maintenance, normal periodic repairs, replacement of parts, structural components, and other activities such as repainting or equipment adjustments, that are needed to maintain the asset so that it continues to provide normal services must not be capitalized but rather charged to an expense account. Ordinary repairs must be expensed.

Examples of ordinary repairs include:

1. Roof and/or flashing repairs
2. Window repairs and glass replacement
3. Tuck pointing
4. Painting
5. Masonry repairs
6. Floor repairs

Major repairs are large expenses that benefit more than one operating cycle or periods. If a major repair, e.g., an overhaul, occurs that benefits several periods and/or extends the useful life of the asset, then the cost of the repair must be treated as an addition, improvement, or replacement, depending upon the type of repair made.

Examples of major repairs include:

1. Roof replacements
2. Floor replacement
3. HVAC replacement
4. Generator overhaul or replacement

In some instances, implementation of this policy may be difficult due to the unique nature of the acquisition. In these cases, professional judgment must be exercised in determining whether the efforts outweigh the benefits derived from applying capitalization.

### **Subpart E. Betterments**

Betterments include expenses of \$10,000 or more that become permanent parts of an existing depreciable capital asset (with an original cost of \$10,000 or greater) and can improve the asset by meeting one or both of the following criteria:

1. Increases the usefulness of the asset, or
2. lengthens the capital asset's life.

Betterment information is to be added to the original asset's record at the time the betterment is placed into service.

## **Part 8. Capitalization Thresholds and Depreciation**

Depreciation is the method of allocating the cost of assets, having a life of more than two accounting periods, over the benefited accounting periods. Each college and university must set appropriate useful lives for depreciable capital asset categories consistent with local use and experience.

The accounting practice for depreciating capital assets of Minnesota State Colleges and Universities is to record and report the depreciation as follows:

1. The straight-line depreciation method will be used for all capital assets. Assets must be assigned the life determined by Minnesota State Colleges and Universities, documented service life from college or university records, or by governing industry organizations.
2. Minnesota State Colleges depreciation method for land improvements, buildings, and building improvements will follow the straight line half year convention.
3. Depreciation method for vehicles and equipment will follow the straight line method with depreciation expense calculated monthly

**Subpart A. Cost thresholds for capitalization and depreciation**

1. Land improvements:
  - a. Improvements to land when the cost by project is equal to or greater than \$250,000
2. Easements will be treated as infrastructure
3. Buildings and building improvements
  - a. With a project cost equal to or greater than \$250,000, depreciation for Construction in Progress is not begun until the date the asset is placed into service.
4. Vehicles
  - a. Betterments to an existing vehicle with a cost equal to or greater than \$10,000 must be recorded in the Minnesota State Colleges and Universities Equipment Module and attached to the original asset number.
5. Equipment
  - a. Betterments to an existing asset with a cost equal to or greater than \$10,000 must be recorded in the Minnesota State Colleges and Universities Equipment/Capital Asset Module system and attached to the original asset number.
6. All sensitive items must be recorded in the Minnesota State Colleges and Universities Equipment Module. Items with costs equal to or greater than \$10,000 will be depreciated.
7. Property rights related to capitalized leases
  - a. Equipment with costs equal to or greater than \$10,000
  - b. Buildings with costs equal to or greater than \$250,000
8. Works of art, historical treasures, and other similar assets:
  - a. Cost at date of purchase or a valuation at date of receipt greater than \$10,000 will be identified, capitalized, and recorded in the Minnesota State Colleges and Universities Equipment Module but will not be depreciated.
  - b. Items, whether donated or purchased, will not be depreciated.
  - c. Items will be protected, kept unencumbered, cared for, and preserved.
  - d. Items will be subject to an institutional policy that requires the proceeds from sales of collections or collection items to be used to acquire other items for collections.
9. Infrastructure project costs equal to or greater than \$250,000. Buildings will not be considered infrastructure assets unless they are an ancillary part of a network of infrastructure assets.



10. Library collections will use a cost that is based on total current year expenses.
  - a. Library collections will be depreciated using a composite method
  - b. Library collections once fully depreciated will be considered disposed. Asset and accumulated depreciation amounts for disposed library materials will be adjusted to zero. A physical inventory will not be completed for library materials.
  - c. The useful life for library materials will be seven (7) years
11. Intangible assets will primarily consist of internally generated computer software used in operations with project outlays equal to or greater than \$250,000.

### **Part 9. Accounting for Capital Assets Removed**

When a new asset substitutes for an old asset as a result of an addition, improvement, or a major repair, all costs must be capitalized in one of two ways, depending upon the circumstances:

1. Substituting the new asset for the old asset – This alternative is the most theoretically correct. If the carrying amount of the old asset is known, the cost of the old asset and related accumulated depreciation are removed and replaced with the cost of the new asset.
2. Capitalizing the cost of the addition or improvement – If the carrying amount of the old asset cannot be determined, this approach may be used. The justification is that even though the carrying amount of the old asset is not removed from the accounts, sufficient depreciation was taken on the old asset to reduce the carrying amount almost to zero. Although this assumption may not be true in every case, the differences are not often significant.
3. Proprietary funds must report the sale or removal of assets in the same manner as a commercial enterprise by removing the asset and recording any gain or loss on the sale of the asset. When equipment purchased with Federal funds with a current per unit fair market value in excess of \$5,000, is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value. (See Inventories of Fixed Assets, a133 Compliance Supplement (F: Equipment and Real Property Management).

### **Part 10. Financing Methods**

Capital assets may be acquired through several methods of financing. Examples are:

1. General Obligation Bonds (G.O. Bonds)
2. Revenue Bonds
3. Hybrid Financing between Minnesota State Colleges and Universities and other third party entities such as other governments, corporations, or individuals
4. Capital Leasing
5. Operating Funds

Irrespective of financing methods, assets acquired with the intent of ownership by colleges or universities are to be recorded in the Equipment Module.

### **Part 11. Internal Transfer of Capital Assets**

Surplus property no longer needed or required by a college or university must be made available for transfer to another college or university.

1. Assets transferred to another college or university must be transferred at net asset value (asset cost - accumulated depreciation = net asset value).
2. Expenses incurred by the transferring college or university and by the receiving college or university would be added to the net asset value of the asset and recorded in the Equipment Module of the receiving college or university as the cost of the asset (net asset value + expense of transferring college or university + expense of receiving college or university = asset value).
3. The receiving college or university would reimburse the transferring college or university for expenses incurred to facilitate the transfer using an appropriate expense object code.
4. The transferring college or university will remove the asset from their Equipment Module and the receiving college or university will add the asset to their Equipment Module if the asset exceeds the recording requirements of the asset group.

Transfers for the amount of the net asset value will require the use of the object codes 7106/9806 (Inter Minnesota State Colleges and Universities transfers).

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*Date and Subject of Amendments:*

*05/17/16 - Formatting changes throughout, including splitting parts for clarity, adjusting capitalization, and small changes to verbiage. Deleted Part 1, Authority. Deleted Part 2, Capital assets. Amended Part 3, Subpart F to clarify sensitive items that are required to be tracked. Amended Part 3, Subpart G to further define sensitive items. Added Part 3, Subpart L, Intangible assets. Amended Part 5, Subpart B, to clarify FMV should be calculated for each type of asset. Amended Part 6, Subpart A to include Assumption of liens or mortgages to the costs to be capitalized associated with land acquisition. Amended Party 12 to reflect current practice.*

*6/10/09 - Due to technical accounting updates to capitalization conventions and amounts (in part to bring MnSCU capitalization amounts into an approximate materiality-adjusted equivalency with Minnesota Management and Budget guidelines)*

*10/14/03 - Due to a drafting oversight the wrong dollar amount was entered in Part 5.C.1.a, Part 5.C.3.b, and Part 5.C.7.b.*