

# Coppin State University



## VIII-1.10 (A) Policy on Capitalization and Inventory Control

### I. INTRODUCTION

To ensure that generally accepted accounting principles and good financial management practices are being followed an asset valuation, property capitalization and inventory control policy has been developed for Coppin State University.

Investment in plant, property and equipment represents a large portion of the University's assets. It is important for both financial statement and cost accounting reasons that Coppin State University follows the University of Maryland System's mandated policy regarding capitalization, valuation and control of plant, related assets and inventory.

Coppin State University will capitalize and establish the controls for the elements and values as described in Sections II and III.

### II. Real Property

Real property consists of land, buildings and building improvements, land improvements (other than buildings), infrastructure and construction-in-progress. Valuation principles outlined for buildings and building improvements also apply to infrastructure, land improvements and construction-in-progress.

#### A. Land

Land acquired by purchase is recorded at cost to include the amount paid for land and all incidental cost.

Land acquired by gift or bequest is recorded at the fair market value at the date of acquisition.

When land is acquired with buildings erected the total cost is allocated between the two in a reasonable proportion at the date of acquisition. If the transfer document does not show the allocation, other sources such as an expert appraisal or real estate tax assessment records may be used to establish valuation.

**B. Buildings and Building Improvements**

This includes all buildings, permanent structures and all fixtures, machinery and other accessories that cannot be readily moved without disrupting the basic building structure or services to the building.

When a building is purchased or acquired by gift or bequest, the basis for valuation is similar to that used for land. The cost or fair market value is allocated to the building.

When buildings are constructed, all identifiable cost is included such as contract cost, insurance and interest cost during period of construction.

Significant additions, alterations, renovations or structural changes that exceed the useful life or enhance the value of an existing building and which exceeds \$250,000 in cost, are added to the recorded valuation of the building at 100 percent of their identifiable cost. An estimate of the original cost of that portion of the building which is removed as a result of an alteration or renovation, for which the cost exceeds the \$250,000 threshold, is deducted from the recorded valuation of the building.

**C. Land Improvements (Other than Buildings)**

This category includes fencing, athletic fields, landscaping and other modifications to the land of a permanent nature requiring no or minimal upkeep. Only those components which exceed \$250,000 in cost should be capitalized.

**D. Infrastructure**

These include roads, bridges, curbs, sidewalks, water, sewer and utility distribution systems. Only those components in excess of \$250,000 in cost should be capitalized.

**E. Construction-In-Progress**

This includes all cost for building, building improvement or land improvement construction projects that are not complete at the end of the fiscal year.

When buildings are constructed, all cost associated with the project such as (but not limited to) contract costs, insurance and interest cost during the period of construction. Only those projects that exceed \$250,000 in cost should be capitalized.

**F. Leased Real Property**

Leased property is only capitalized when the total cost of the property exceeds \$250,000 and it meets the criteria spelled out in FASB Standard No. 13 and subject to the following accounting standards which provide that:

A lease is a capital lease if at the beginning it meets any of the following criteria:

- a. It transfers ownership of the property to the lessee by the end of the term of the lease;
- b. It contains a bargain purchase option;
- c. The lease term is 75 percent or more of the estimated economic life of the leased property; or
- d. At the beginning of the lease term, the present value of the minimum lease payments (without executory cost), equals or exceeds 90 percent of the excess of the fair value of the leased property.

The leased property is recorded at the total cost net of interest expense (the present value at the beginning of the lease).

### III. Personal Property

This category includes movable equipment, library books and merchandise inventory.

- A. Equipment (Capital Equipment with a unit value of \$5,000 or more)  
This includes all equipment that is not permanently affixed to buildings with a useful life of greater than one year and has a unit cost of \$5,000 or more except for items mainly composed of glass, rubber, cloth and equipment held for resale. Equipment held for resale should be controlled and valued in accordance with the guidelines for merchandise inventory.

Equipment as defined for the purposes of this policy as an individual item or group of items which cannot be separated without losing the usability of the item for its intended purpose.

1. For equipment purchased the valuation is the net amount paid through Accounts Payable which is the invoice amount less all discounts (except trade-in allowances). Trade-in allowance is included in the asset value. Freight and installation costs are also included if they are shown on the original invoice, or if they are readily available on freight bills. If actual cost are not readily available, a cost is estimated using the most realistic value possible.
2. Equipment acquired by gift is recorded at fair market value at the date of acquisition.
3. Leased equipment is capitalized if it meets the criteria outlined in FASB Standard No. 13 which provides that:

A lease is a capital lease if at the beginning of the lease period it meets any one of the following criteria:

- a. It transfers ownership of the equipment to the lessee by the end of the lease term;

- b. It contains a bargain purchase option;
- c. The lease term is 75 percent or more of the economic life of leased equipment; or
- d. At the inception of the lease term, the present value of the minimum lease payments (excluding executory costs) equals or exceeds 90 percent of the excess of the fair value of the leased equipment.

The leased equipment is recorded at the total cost net of interest expense (the present value at inception of the lease).

- 4. The valuation of fabricated equipment includes all identifiable direct costs such as drawings, blueprints, component parts, materials and supplies consumed in the fabrication, labor and installation.

Coppin State University is responsible for maintaining inventory records for all capital equipment, performing or coordinating physical inventories, reconciling physical inventories to the related records at least bi-annually and reconciling equipment additions and deductions in inventory to the general accounting system.

#### Equipment Assigned for Use by Employees Off-Campus

A CSU Equipment Transfer and Disposal Form must be completed and signed by the department chairperson before any equipment can be taken off campus. The form must be maintained by the department head and may be reviewed upon request by the Controller.

Equipment assigned for use by an employee off-campus must be returned to campus each inventory period. If the item is lost while in the possession of an employee off-campus, the employee is responsible for replacing the lost item (at the depreciated cost or fair market price). If the item is stolen while in the possession of an employee off-campus the employee must file reports with the jurisdictional and campus police. The employee will reimburse the university for the stolen item at the fair market value or depreciated value. Equipment that is not returned to the university upon the retirement, termination or resignation of an employee will either be deducted (depreciated or fair market value price) from the employee's final paycheck or billed the employee. Failure to pay will result in the former employee's debt being turned over to the State of Maryland's Central Collection Unit (where a collection fee will also be charged). The University's designate is the only authority that may dispose of University property. Under no circumstances will employees assigned equipment off-campus will not be allowed to dispose it.

#### Transfer and Disposal of Capitalized Equipment

Requires the completion of the Coppin State University Equipment Transfer and Disposal Request Form. The form must be completed in duplicate and signed by the department chairperson. A copy of the form must be kept in the

department and a copy of the form must be kept by the Inventory Control Clerk.

All equipment disposals must be approved by the Vice President for Administration and Finance. A copy of the equipment disposal form must be submitted to the Controller so that an adjustment can be made to the financial statements. Also see Coppin State University Policies and Procedures Manual Section VIII-1.20 (A) Policy and Procedures for the Acquisition and Disposal of University Surplus Property for additional instructions.

Equipment inventory records should also include items of equipment that meet the above specifications except that the University is the custodian rather than the owner. These items should not be reported on the financial statements.

B. Equipment (Non-Capital with a Value of Less than \$5,000)

Equipment that does not meet the capital equipment threshold because its unit cost is less than \$5,000 or because it is predominantly made of glass, rubber or cloth is not reported on the financial statements.

A higher level of control will be exercised over non-capital equipment items (for the purpose of this policy this category of equipment will be known as sensitive items) in an effort to curtail their loss. The Departments charged with recording and tracking sensitive items will need an employee to receive and tag this equipment and another employee to inventory this equipment. The University will tag and maintain inventory records on all sensitive items (other than computers and weapons) with a cost of \$300.00 or more.

Sensitive Items Listing

These items are deemed easily converted for personal use, are frequently replaced and range in cost from \$500.00 to less than \$5,000 or must be controlled to meet external reporting requirements. This list will be updated by changes to the Sensitive Items List being developed by the University System Administration.

1. IPADS
2. Weapons and Ammunition are under the control of the Office of Public Safety. They are tracked regardless of cost.
3. LAP Tops
4. Cell Phones
5. Small Tools costing \$500.00 or more
6. Audio Visual Equipment
7. Other items as deemed necessary

Sensitive Items Assigned for Use by Employees Off-Campus

A CSU Equipment Transfer and Disposal Form must be completed and signed by the department chairperson before any equipment can be taken off campus. The

form must be maintained by the department chairperson and may be reviewed upon request by the Controller or his/her designee.

Sensitive items assigned for use by employee's off-campus must be returned to campus each inventory period. If the item is lost while in the possession of an employee off-campus, the employee is responsible for replacing the lost item (at the depreciated cost or fair market price). If the item is stolen while in the possession of an employee off-campus the employee must file reports with the jurisdictional and campus police and the employee will reimburse the University for items stolen while assigned to them. The reimbursement rate will be fair market price or the depreciated value of the item. Sensitive items that are not returned to the University upon the retirement, termination or resignation of an employee will either be deducted from the employee's final paycheck or billed the employee. Failure to pay will result in the former employee's debt being turned over to the State of Maryland Central Collection Unit (where a collection fee will also be charged). The University's designate is the only authority that may dispose of University property. Under no circumstances will employees assigned sensitive items off-campus is allowed to dispose of them.

#### C. Library Books

Purchases of books, bound periodicals, microfilm or other library items are capitalized if they are part of the formal Coppin State University's catalogued library.

Library items acquired by gift are valued at fair market value. Deletions are valued at annually adjusted average cost per volume except where value is known to be above the adjusted average and deletion is necessitated by loss, theft or damage in which case, fair market value is used for the deletion.

The Director of the Library shall provide this information to the Controller for inclusion in the University's financial statements.

#### D. Depreciation Method

Depreciation is process of allocating and distributing the cost of a tangible asset over the estimated useful life of the asset. Coppin State University uses the straight-line method of depreciating assets. This is done by using the acquisition cost, less the salvage value equals the cost to be allocated.

#### E. Useful Life of Assets

The Useful Life for asset depreciation is: buildings 40 years, land improvements 20 years, leasehold improvements 20 years, equipment 4 to 15 years and library books 10 years.

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