

MSU CAPITAL ASSET POLICY

1. **CAPITALIZATION POLICY and USEFUL LIFE:** MSU records as capital assets those assets that meet its formal capitalization policy. The capitalization policy is as follows:

<u>TYPE OF ASSET</u>	<u>CAPITALIZATION THRESHOLD</u>	<u>USEFUL LIFE</u>
Buildings	\$ 25,000	40 yrs
Building Improvements	\$ 25,000	15 yrs
Land	\$ 5,000	N/A
Land Improvements	\$ 25,000	20 yrs
Infrastructure	\$ 500,000	20 - 75 yrs
Equipment		
Furniture	\$ 5,000	10 yrs
Data Processing/ Computer Hardware	\$ 5,000	5 yrs
Office Equipment	\$ 5,000	5 yrs
Research Equipment	\$ 5,000	10 yrs
Other Equipment	\$ 5,000	10 yrs
Vehicles (15% salvage if appropriate)	\$ 5,000	5 yrs
Library Books and Materials	(no minimum)	15 yrs
Museum, Art & Related - I	\$ 5,000	15 yrs
Museum, Art & Related - II	\$ 5,000	N/A
Intangibles		
Software (purchased)	\$ 100,000	3-10 yrs
Software (internally generated)	\$ 500,000	
Other intangibles	\$ 100,000	
Livestock	(no min in herd)	n/a

2. **USEFUL LIVES OF CAPITAL ASSETS:** MSU groups assets into types, using a pre-determined useful life for most assets in that asset type. This life may be overridden on any specific asset purchase by any of the MSU campuses if, based on history and experience, a useful life which is more reflective of the asset's use than the "default life" has been determined and can be supported. The "default" useful lives of types of assets are stated in the following item (#3). Useful life choices are based on the State of Montana Department of Administration guidelines (not mandated), and on information obtained from the custodians of the assets (i.e., the Dean of Libraries for Library holdings).

Other considerations:

- Items that meet certain criteria as noted in GASB 34, par 27, are not depreciated; such items include special library collections and works of art which are:
 - Held for public exhibition, education or research in furtherance of public service, rather than financial gain
 - Protected, kept unencumbered, cared for and preserved
 - Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

MSU Capital Asset Policy

Other library, museum and related items not meeting the above criteria are capitalized at cost or our best estimate of fair market value upon donation, and are depreciated.

- MSU campuses may choose to track certain assets that are not capitalized, either in Banner or in an off-line system.
- Group purchases of individual assets are not aggregated for capitalization purposes (except for library and livestock holdings). For example, a purchase of 50 chairs at \$100 each, though totaling \$5,000, is not capitalized. Similarly, several individual improvement projects to one building are considered separate assets, and are capitalized only if each project meets the \$25,000 capitalization threshold.
- Library holdings are capitalized as a group. Additions are recorded annually, as a layer. Deletions are generally removed from the oldest available year's layer.
- Livestock is capitalized as a group, and is not depreciated. Breeding cattle are routinely replaced in the herds by their offspring; additions and deductions from the asset cost are not reported for reproducing cattle replaced in this manner.
- Intangible Assets are assets that lack physical substance, are non-financial in nature, and have a useful life greater than one year. Examples include, but are not limited to, easements, water rights, timber rights, patents, copyrights, trademarks, and computer software (purchased, and internally generated). Internally generated software is software developed by University staff or an entity contracted by the University, or acquired from an external entity but requiring more than minimal incremental effort on the part of the University to begin to achieve its expected level of service capacity.

Licensed software is software that the University has the right to use for a specified period of time. Therefore it is not capitalized but expensed over the life of the license.

3. **BASIS OF CAPITAL ASSETS:** MSU records capital assets at their total cost. Total cost includes ancillary costs such as freight or site preparation which are directly associated with the acquisition of the asset and placing it into service. Interest is considered part of an asset's cost, and is recorded in accordance with FASB Statements 34 and 62. Donated capital assets are recorded at either the estimated fair market value or at the appraised value at the time they were donated.

In recording additions or betterments, only additions or betterments that significantly affect the asset's usefulness or useful life are to be capitalized. In the area of building improvements, even though a project might exceed the capitalization threshold of \$25,000, the project should not be capitalized if it does not significantly change the asset's usefulness. For example, a project to make aesthetic improvements to a student lounge may exceed \$25,000 and not be capitalized, whereas a project to convert a student lounge to a computer lab would be capitalized.

In recording intangible assets – the basis is the total cost. Generally the amount paid for purchased software, easements, water rights, etc. can be easily determined and that will be the amount capitalized. For patents and internally generated software, the determination of the asset's basis will be determined on a case by case basis.

MSU Capital Asset Policy

Internally generated software includes software developed in-house by the university personnel, developed by a third-party contractor on behalf of the university, or commercially available software that is modified using more than minimal incremental effort before being put into operation.

Internally generated software and university owned patents should be capitalized only on the occurrence of **all** of the following:

- a) Determination of the specific objective of the project and the nature of the service capacity expected to be provided by the intangible asset upon the completion of the project
- b) Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity
- c) Demonstration of the current intention, ability and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

Only outlays incurred subsequent to meeting the above criteria should be capitalized. Outlays incurred prior to meeting those criteria should be expensed as incurred.

For commercially available software that will be modified to the point it is considered internally generated, the above requirements could generally be considered to have occurred upon the university's commitment to purchase or license the computer software.

4. **DEPRECIATION/AMORTIZATION CONVENTION:** MSU computes depreciation periodically and assets will be depreciated/amortized based on date of acquisition or disposal (referred to as the Proportional Method in the Banner system).
5. **DEPRECIATION/AMORTIZATION METHOD:** MSU uses the straight-line method of depreciation/amortization for all capitalized assets, unless a different method clearly provides a more accurate match of an asset's use with its amortization.
6. **SALVAGE VALUE:** MSU campuses generally do not attach a salvage value to assets. Assets are generally kept in good working condition and remain useful throughout their depreciable lives.
7. **GAIN OR LOSS ON DISPOSAL:** MSU records a gain or loss each time a capital asset is disposed of, unless the sales proceeds are equal to the net book value of the asset at the time of disposition.
8. **COMPONENTIZING:** MSU did not componentize any type of capital assets upon implementation of GASB 34/35; however, on a prospective basis, if a building or land improvement is replaced, the old asset, if separately identifiable, will be removed from the capital asset records upon replacement.
9. **REPORTING OF DEPRECIATION AND AMORTIZATION EXPENSE ON CAPITAL ASSETS:** Depreciation expense is reported separately as depreciation (an operating expense) in the statement of revenues, expenditures, and changes in net assets, as a separate program. Capital assets are reported net of accumulated depreciation in the statement of net assets. Accumulated depreciation is disclosed in the footnotes of the financial statements, and will not be reported on the face of the statement of net assets.

MSU Capital Asset Policy

10. **INFRASTRUCTURE:** MSU's primary infrastructure assets include its fiber optic network, telephone system, utility distribution networks and steam and condensate tunnels. If a significant infrastructure item is improved, for example a steam tunnel is extended ½ mile to reach a new building, the cost of the new tunnel is capitalized separately as an infrastructure asset, separately from the related building. MSU follows the criteria mentioned earlier (i.e., threshold of \$500,000, and useful life of 20 – 75 years) in determining whether or not specific infrastructure items should be capitalized.
11. **GASB 34/35 TRANSITION:** Each building's cost includes portions of infrastructure capitalized within the building cost. Because of buildings' and infrastructure's differing capitalization thresholds, the infrastructure portion may not be capitalizable. Due to a lack of records and the relative immateriality of these infrastructure pieces (see GASB 34 ruling that infrastructure less than 10% of total capital assets need not be capitalized), MSU did not go to lengthy efforts to dissect building costs from infrastructure costs on existing buildings and improvements when implementing GASB 34/35. However, infrastructure systems for which records are available and which are material will be separated from their related buildings and/or land and/or improvements. An infrastructure survey was used to assure that all significant infrastructure items are considered.

Cost data for many buildings was not available prior to 1980, the date that MSU began recording its assets on the state's asset management system. If available, actual cost data was used to separate buildings from improvements. In the absence of actual cost data, the value in PAMS at 1980 will be considered the building cost, and all changes to the value after that date will be considered improvements. Each annual layer of improvements was capitalized as one item, with an acquisition date of January 1 of the applicable fiscal year (assumes ½ year of depreciation, effectively averaging the improvements throughout the year). Misclassification between buildings and improvements is not considered to be a material risk, because for newer buildings the cost as of 1980 is not considerably different than the acquisition cost. For older buildings, both the building and its related improvements are (1) currently fully depreciated, lessening the impact of any possible misclassification and (2) immaterial in comparison with asset values taken as a whole.

Items that do not meet the State's capitalization thresholds will either be removed from the Banner asset records or will be tracked at zero cost, at the campus's discretion.