THE UNIVERSITY OF NORTH CAROLINA SYSTEM

Business Process Compliance Program

Capital Asset Standards

Update

May 2024

Capital Asset Standards

Table of Contents

Summary Discussion: 7
Process I - General Management 8
A - Equipment 8
B - Buildings 8
Process II – Initiation / Acquisition 9
A - Equipment 9
B - Buildings 9
Process III – Depreciation 10
A - Equipment 10
B - Buildings 10
Process IV – Record Maintenance 10
A - Equipment 10
B - Buildings 10
Process V – Retirements / Disposals 11
A - Equipment 11
B - Buildings 11
Baseline Standards: 12
Process I – General Management 12
A – Equipment 12
1) Establishing Policies, Procedures and Guidelines for Accounting of Equipment: 12
2) Training Capital Asset Group (CAG) Employees: 13
3) Segregating Duties between Employees: 13
4) Maintaining a Roles and Responsibility Matrix: 13
5) Training Employees of Campus Departments: 13
6) Maintaining a Capital Asset Management System for Equipment: 14
7) Limiting Access to and Having Back-Up Procedures for the Capital Asset Management System: 15
8) Establishing Year-End Procedures Related to Equipment for Financial Statement Reporting Purposes: 15
9) Policies and Procedures for Equipment Below the Capitalization Threshold with Pilfering Risk: 15
B - Buildings 16
1) Establishing Policies, Procedures and Guidelines for Accounting of Buildings: 16
2) Training of Employees: 17
3) Segregating Duties of Employees: 17
4) Establishing and Maintaining an Accounting System for Buildings and CIP: 18
5) Limiting Access to the Accounting System for Buildings and CIP: 18
6) Establishing Year-End Procedures Related to Buildings and CIP for Financial Statement Reporting Purposes: 18

Capital Asset Standards

Process II – Initiation / Acquisition **18**
A – Equipment **18**
1) Recording and Tracking Capital Equipment Acquisitions: 18
2) Complying with Federal Regulations over Acquisition of Capital Equipment Assets: 19
3) Identifying and Recording Capital Equipment Assets: 19
4) Documenting the Acquisition of Capital Equipment Assets: 24
5) Tagging Capital Equipment Assets: 25
6) Maintaining Capital Equipment Asset Information in the Capital Asset Management System: 26
7) Accounting for Equipment Held for Investment Purposes: 26
8) Evaluation of the Capitalization Threshold for Equipment and Accounting for Equipment Assets Under the Threshold that are Considered Significant: 27
B - Buildings **27**
1) Recording and Tracking Building and CIP Activities: 27
2) Identifying and Recording Building and CIP Activities: 27
3) Reviewing and Evaluating Contractor Payment Applications / Contract Invoices: 30
4) Determining Capitalization Values for Building Assets: 31
5) Maintaining Building Asset Information in the Capital Asset Management System: 38
6) Accounting for Buildings Held for Investment Purposes: 38
Process III – Depreciation **38**
A – Equipment **38**
1) Establishing Rules / Guidelines for Equipment Depreciation Purposes: 38
2) Utilizing the Straight-Line Method of Depreciation: 39
3) Determining the Useful Life of Equipment: 39
4) Evaluating and Adjusting Established Depreciation Rates Over Time: 40
5) Amortization of Lease Assets: 42
B - Buildings **42**
1) Establishing Accounting Rules / Guidelines for Building Depreciation Purposes: 42
2) Utilizing the Straight-Line Method of Depreciation: 42
3) Determining the Useful Life of Buildings: 43
4) Evaluating and Adjusting Established Depreciation Rates Over Time: 43
5) Amortization of Lease Assets: 45
Process IV – Record Maintenance **45**
A - Equipment **45**
1) Taking Annual Physical Inventories of Capital Equipment Assets: 45
2) Evaluating and Reporting Missing Equipment: 46

3) Reviewing Maintenance Expenses for Misclassified Capital Equipment Assets:.....47
4) Determining and Adjusting for Impairments to Capital Equipment Assets:.....48
5) Reporting Location Changes of Capital Equipment Assets:.....48
6) Authorizing Capital and Non-Capital Equipment to be taken off campus:.....49
7) Reconciling the Capital Asset Management System:.....50
8) Validating and Maintaining Documentation for Changes to the Capital Asset Management System:.....50
9) Making Necessary Adjustments to General Ledger Equipment Accounts for Financial Statement Reporting Purposes:.....51
B - Buildings.....51
1) Communicating and Confirming Buildings Placed in or Removed from Service with the Facilities Management Operations:.....51
2) Communicating with and Validating the Existence Assertion for Buildings with the Appropriate Custody / Oversight Office:.....51
3) Reviewing the UNC Space Utilization Report:.....52
4) Determining and Adjusting for Impairments to Buildings Assets:.....52
5) Reconciling the Capital Asset Management System:.....53
6) Validating and Maintaining Documentation for Changes to the Capital Asset Management System:.....53
7) Making Necessary Adjustments to General Ledger Building and CIP Accounts for Financial Statement Reporting Purposes:.....53
Process V – Retirements / Disposals.....54
A - Equipment.....54
1) Initiating and Communicating the Disposal of Capital or Non-Capital Equipment:.....54
2) Disposing of Capital or Non-Capital Equipment:.....54
3) Complying with State Rules and Regulations over Disposition of Capital or NonCapital Equipment: 55
4) Cannibalizing Capital Equipment:.....56
5) Transferring Equipment to an Entity Outside of the Institution:.....56
6) Disposing Capital Equipment Purchased with Federal Funds:.....56
7) Recording Gains / Losses from Sale of Capital Assets:.....57
B - Buildings.....57
1) Identifying Buildings That Have Been or Need to be Retired and/or Adjusted Due to Material Impairments and Making Appropriate Adjustments to the Building Accounting System:.....57
2) Accounting for Retirements When the Building's Value is Componentized:.....58
3) Accounting for Extraordinary Repairs and Replacement of Building Parts / Components:.....58

4) Accounting for Buildings Sold: 58
5) Recording Gains / Losses from Sale of Capital Assets: 58
Appendix: 59
Abbreviations 59
Definitions 59
Acquisition Value: 59
Blended Component Unit: 59
Buildings: 59
Cannibalism: 59
Capital Asset: 59
Capital Assets Group: 59
Capital Assets Management System: 61
Capital Assets Manual: 61
Capitalization: 61
Capitalization of Repairs or Renovations: 61
Certificate of Occupancy 61
Commodity Codes: 61
Component Parts: 61
Component Unit: 61
Condition Codes: 62
Depreciation: 63
Equipment: 63
Estimated Useful Life: 63
Fabricated Equipment: 63
Final Report: 63
Increase in the Future Service Potential of an Asset**:** 64
Investment: 65
Materiality: 65
Pilfering Risk: 66
Repairs or Replacements: 66
Salvage Value: 66
State Owned Property: 66
Surplus Sale: 66
Tagging: 66

References **66**
Templates and Examples **67**

Capital Asset Standards

Summary Discussion:

This document provides the baseline standards for the capital assets process of the University of North Carolina (UNC) System as well as general guidance on recording and maintaining capital assets. Throughout the standards, examples and best practices are identified to assist universities with performing general capital assets procedures. The purpose of providing these standards is to ensure that university assets are properly acquired, accounted for, maintained, and disposed of. These procedures are carried out in accordance with State policies, Federal regulations, audit requirements, and governmental accounting standards.

According to the North Carolina Office of the State Controller (OSC), the term 'capital asset' refers to property, such as land, land improvements, easements, buildings, equipment, works of art and historical treasures, and infrastructure, with a cost equal to or greater than $5,000 and a useful life of two or more years. Capital assets are acquired for use in normal operations and are not for resale. These standards are intended to address capital assets as defined by OSC. Given historical data and the materiality of financial statement account balances, the focus of these standards is on Equipment and Buildings.

It should be noted that even though these standards address only capital assets, each department within a university is responsible for maintaining and safeguarding all assets regardless of cost.

The targeted users of this document include the following functional offices/units:

1. *Capital Assets Group* – is a generic term used to refer to one or more offices responsible for (1) maintaining the university's capital equipment inventory, (2) maintaining the detail information on individual assets for supporting the buildings reported on the university's financial statements, and (3) recording capital asset changes and depreciation on the university's general ledger.

2. Purchasing Office (Assisting Role) – responsible for making sure that all university purchases of goods and services are made in accordance with state regulations.

3. Receiving Office (Assisting Role) – responsible for receiving and notifying the *Capital Assets Group* of new equipment entering the university.

4. Departmental Custodians / Users / Campus Coordinators (Assisting Role) – responsible for working with the *Capital Assets Group* to maintain an accurate inventory record as well as safeguarding all assets assigned to the department.

5. Internal Audit (Monitoring Function) – reviews and evaluates internal controls within departments to aid in the effective and efficient performance of university operations.

6. Facilities Office (Assisting Role) - responsible for maintaining and reporting the condition of buildings and updating the facilities management database.

Process I - General Management

A - Equipment

The Capital Asset Group (CAG) is responsible for the identification and recording of the University's capital assets, as well as the development of functional policies and procedures for those processes and other related processes including tagging equipment, taking physical inventories, and the follow up on inventory results. In addition, the CAG is responsible for maintenance of the capital asset management system (CAMS) including the accounting for information related to the individual capital assets, the assignment of the capital asset's useful life, the recording of depreciation and accumulated depreciation, and the reconciliation of the CAMS to the University's financial system.

In doing this, the CAG interacts with and receives information from internal systems, the surplus office, campus departments and other central offices. The CAG strives to confirm that the university's equipment inventory records are accurate based on departmental reporting of changes that effect those assets during the year, as well as the annual departmental physical inventory process. This group may include a standalone office and/or specific employee assignments in the Controller's Office or other responsible office(s).

These General Management standards relate to the administration of this process. These guidelines are designed to promote efficiency and effectiveness within the *Capital Assets Group*. Roles and responsibilities are defined in the *Capital Assets Group*, and positions are cross trained to mitigate an absence or separation. New employees in the *Capital Assets Group* are trained according to appropriate policies and procedures. The *Capital Assets Group* should maintain policies and procedures covering the basic functions of the group. The *Capital Assets Group* should also maintain appropriate data security and standards within the *Capital Assets Management System*

B - Buildings

The General Management sub-process relates to the general standards of the accounting and financial reporting of buildings. These guidelines are designed to promote efficiency and effectiveness within the *Capital Assets Group* for the accounting and financial reporting of buildings, including construction in progress. The *Capital Assets Group* may include a standalone office and / or specific employee assignments in the Controller's Office or other responsible office. Employees responsible for accounting and financial reporting are trained according to office policies and procedures. The *Capital Assets Group* should maintain appropriate written policies and procedures covering the accounting and financial reporting functions over buildings.

Capital Asset Standards

The *Capital Assets Group* should also maintain appropriate data security and standards within the *Capital Assets Management System*. In order for the supporting records related to the accounting and financial reporting of buildings to be complete and accurate, the staff in the responsible office interacts with other departments, such as the Facilities Department, the Real Estate Office, the Budget Office, the Purchasing Office, and others. In addition to the *Capital Assets Management System*, other departments may maintain building information for specific and various purposes that assist in verifying existence and ownership rights.

Process II – Initiation / Acquisition

A - Equipment

The Initiation / Acquisition sub-process covers the initial acquisition of equipment to the entry of that equipment into the *Capital Assets Management System*. This includes the different ways equipment is acquired by the university and the source of funds used for the equipment acquisition. Once equipment is received by the university, it is capitalized if it meets the established policy or regulation. The Office of State Controller (OSC) requires the UNC system universities to capitalize equipment assets based on the statewide established capitalization policy and threshold. Also, campus departments are responsible for safeguarding procedures for purchases of computers and other equipment with pilfering risk under the capitalization threshold amount. Equipment meeting the capitalization requirements must be captured in the *Capital Assets Management System* and properly tagged with a unique identifier. This identifier allows the *Capital Assets Group* to record and track asset values, ownership, location, condition, and depreciation on each equipment acquisition.

B - Buildings

The Initiation / Acquisition sub-process covers the accounting and financial reporting for buildings. It includes the identifying and recording of building changes / activities to the *Capital Assets Management System*. Capital improvement projects are defined as real property acquisitions, new construction, re-habilitation of existing facilities, and repairs and renovations. Before construction can begin on a building, the source of funds and architect must be identified and approved. Once the construction contracts are awarded and work commences, the construction of the building is monitored by a facilities / construction oversight office and the approved architect who verifies that the construction is performed in accordance with the contract terms, conditions, and specifications, and approves the contractor's invoice for payment. After construction is finished, the building must be accepted by the State Construction Office prior to occupancy. When the university receives approval from the State Construction Office to occupy the building (Certificate of Occupancy) and the building is placed in service, it becomes depreciable real property. Prior to this time, the building is classified as non-depreciable Construction in Progress (CIP). Generally, the date of the Certificate of Occupancy is recorded as the date the building is placed in service, valued, and capitalized. However, if the building is placed in service at a later date, the later date would be recognized for depreciation purposes. If the building is acquired through means other than construction, the capitalization value of the building must be determined using the purchase price or, for donated buildings, the appraised acquisition value.

Capital Asset Standards

Process III – Depreciation

A - Equipment

The Depreciation sub-process covers the methods and considerations used to depreciate capital assets. Depreciation is an accounting method used to allocate the total cost of a capital asset over its estimated useful life. The expected useful life of a capital asset is based on an estimate of how long the capital asset will be used or in usable condition. For depreciation purposes, equipment is assigned to asset classes with set depreciation rates. To ensure the depreciation rate of an asset class is reasonable and to monitor the appropriateness of amounts reported as accumulated depreciation on the financial statements, the depreciation rates assigned to asset classes should be reviewed and adjustments made as determined by management.

B - Buildings

The Depreciation sub-process covers the methods and considerations used to depreciate buildings. Depreciation is an accounting method used to allocate the total cost of a building over the useful life of the building. The expected useful life of a building is based on an estimate of how long the building will be used or in usable condition. Buildings can potentially be depreciated as one unit or as different components and additions. Each component and addition may have a different useful life and, therefore, be depreciated on a different schedule. Management should periodically review the depreciation rates assigned to asset classes to verify that the estimates are reasonable and to monitor the appropriateness of amounts reported as accumulated depreciation on the financial statements.

Process IV – Record Maintenance

A - Equipment

The Record Maintenance sub-process covers the tracking of equipment within the university and the maintenance of accounting records once the equipment is recorded into the *Capital Assets Management System*. Each piece of equipment is assigned a unique tracking number (tag) and location in the *Capital Assets Management System*. Annually, a physical inventory is performed to verify the equipment's existence and location. The physical inventory is important to help the university account for its capital equipment, to assist in verifying its existence and location, and to identify assets not properly reported as misplaced, lost, or damaged.

B - Buildings

The Record Maintenance sub-process covers the tracking of buildings within the university and the processes necessary to maintain accurate accounting records throughout the life of the building. Once identified, buildings should be added to the *Capital Assets Management System*. During the life of a building, renovations or additions can change the capitalization costs and depreciation schedules of the building. These changes must be recorded in the *Capital Assets Management System* to verify that buildings are properly reflected in the financial statements. The Record Maintenance sub-process also covers periodic accounting and financial reporting

reconciliations and communications regarding building maintenance and inspections and the determination of material asset impairments.

Process V – Retirements / Disposals

A - Equipment

The Retirements / Disposals sub-process includes the methods in which a university can dispose of capital equipment. All capital equipment purchased through the university is property of the state. This property cannot be sold or transferred outside of the university without permission of the State Surplus Property Office. Certain universities go through the State Surplus Property Office while others are given authority to administer the surplus property program internally. When equipment is no longer needed, becomes obsolete, or no longer used or usable by a department, the appropriate Surplus Property Office should be informed, and the equipment moved to the appropriate surplus location for sale / disposal. The appropriate Surplus Property Office decides the best option for the equipment. The equipment could be sold to the public, transferred to another department or state agency, scrapped, trashed, or used for parts. The *Capital Assets Management System* handles retirements differently from university to university depending on its focus. Some universities may require its *Capital Assets Management System* to account for equipment until actually sold / disposed by the appropriate Surplus Property Office. Other universities may use its *Capital Assets Management System* to account for equipment based on its financial reporting needs. When based on financial reporting needs, equipment is removed from the *Capital Assets Management System* when a properly completed disposal form or authorization from the department head is received in the *Capital Assets Group*.

B - Buildings

The Retirements / Disposals sub-process includes the methods in which a university can dispose of buildings. When buildings are no longer used or in usable condition, the university can renovate, repair or re-habilitate the building or dispose of it. If the university retires the building, it can be demolished, transferred, or sold to a third party.

Capital Asset Standards

Baseline Standards:

Process I – General Management

A – Equipment

1) Establishing Policies, Procedures and Guidelines for Accounting of Equipment:
Policies, procedures, and guidelines should be clearly documented and communicated to the staff of the *Capital Assets Group*. The policies, procedures and guidelines should be established by the *Capital Assets Group* and adhere to federal and state regulations as well as to the mission and guidelines of the university.
   a) The capital asset policies, procedures and guidelines for equipment should at a minimum contain guidance on the following topics:
      i) Identifying Acquisitions
      ii) Tagging
      iii) Recording
      iv) Annual Inventories
      v) Capitalization
      vi) Depreciation
      vii) Transfers
      viii) Sales / Dispositions
      ix) Reporting Location Changes of Assets
      x) Approval for Equipment Taken Off Campus
      xi) Departmental Responsibilities for Capital Equipment
      xii) Departmental Responsibilities for Equipment Under the Capitalization Threshold with Pilfering Risk
      xiii) Accounting and Reporting of Federally Owned Property
      xiv) Accounting and Reporting of Property Acquired with Federal Funds

See Appendix – Equipment Templates and Examples for Example of Equipment Policies, Procedures and Guidelines (1.a)

   b) When related changes occur, the policies, procedures, and guidelines including supporting forms, templates, training materials, and job responsibilities, should be reviewed to verify that they are accurate and reflect current group activities.
   c) Prior to implementation, changes to the processes should be reviewed and approved by management.
   d) The capital assets policies, procedures and guidelines should be readily available to all employees associated with the process.

2) Training Capital Asset Group (CAG) Employees:
New employees should receive appropriate and relevant training on the policies, procedures and guidelines of the *Capital Assets Group*. Training materials should be reviewed and updated when appropriate.

3) Segregating Duties between Employees:
Positions responsible for the capital asset's function should be segregated such that no one employee has exclusive control over any transaction or group of transactions.
   a) The following purchasing and invoice processing functions related to capital assets should be performed by different individuals and not by the *Capital Assets Group*:
      i) Authorizing the purchase
      ii) Processing the vendor order / invoice
      iii) Receiving the equipment
   b) The following capital assets maintenance and recording functions should be performed by individuals not having responsibility for the custody of the related assets:
      i) Tagging the equipment
      ii) Recording / adjusting the *Capital Assets Management System*
      iii) Taking and reporting the physical inventory
   c) When segregation of duties is not possible, compensating controls must be placed in operation to reduce the related risk. Compensating controls may include:
      i) Closer supervision and training of individuals in the incompatible functions
      ii) Post audit or reconciliation of activities by another individual
      iii) Spot checks on physical inventories by the *Capital Assets Group* or persons under the guidance of the *Capital Assets Group* that do not have custody of the assets (see "Record Maintenance" Equipment section 1.e for further guidance on spot checks).

4) Maintaining a Roles and Responsibility Matrix:
A roles and responsibilities matrix by function / department or individual and list of responsible employees that tag, record, and inventory capital assets by function / department (including the employee names, phone numbers and/or e-mail addresses) should be established and maintained by the *Capital Assets Group*. This document should be maintained on a current basis and include all roles key to the capital assets equipment process including those functions / departments involved with tagging, the physical inventory process, and maintenance of accounting records. Prior to the annual physical inventory, this document should be reviewed and evaluated to determine if all necessary tasks have been properly assigned. This document should also be evaluated as deemed necessary to determine if cross training is needed and if functional duties are properly segregated or if compensating controls were established to reduce risk.

See Appendix – Equipment Templates and Examples for Example of Roles and Responsibilities Matrix (1.b)

5) Training Employees of Campus Departments:
Training opportunities should be offered by the *Capital Assets Group*, especially to other campus departments that participate in the capital assets management function. This

training should generally be offered at least annually to update departments on the importance of the physical inventory counts and the procedures to complete these counts correctly. Departments should also be trained on the policies and procedures for transferring assets to a new location and the importance of filling out this request in a timely manner, and the policies and procedures related to approval for equipment taken off campus as well as departmental responsibilities over safeguarding and management control of capital and non-capital equipment. Training materials should be reviewed and updated when appropriate.

a) When individuals subordinate to the process and under the supervision of others outside the *Capital Assets Group* do not respond to attempts for training or otherwise have continuing performance issues affecting the capital asset records in a significant way, attention of this matter should be expressed to the individual's department head by the University Controller or other responsible officer. If the training issue or other condition is not satisfactorily addressed in 90 days, the University Controller or other responsible officer should report the management issue to the Dean and/or the Vice Chancellor of Finance and Business.
b) Campus capital assets coordinator positions may be established to streamline the capital assets function for a university. These capital assets coordinators serve as departmental contacts for the *Capital Assets Group* and are responsible for communicating capital assets information for a given department to the central office. Periodic training should be provided to the campus capital assets coordinators to clearly communicate *Capital Assets Group* policies and procedures.
c) The frequency, extent and content of the training and communications provided by the CAG or other responsible office is determined by management based on risk factors including changes in policies and procedures, changes in personnel, changes in accounting and reporting systems, as well as internally known or externally reported issues. Annual training by the CAG or other responsible office is generally required by these standards. When training is offered less frequently then annually, the CAG or other responsible office must provide a documented risk assessment signed off by the Controller or other responsible officer to support the management decision for not providing annual training.
d) Training and communications related to policies and procedures over capital assets belonging to or acquired with federal funds should be made to campus units responsible for and having custody of such assets. The CAG should communicate with the Contracts and Grants Office and have a clear understanding as to the responsibilities for accounting, reporting, training, and communication related to the federal grant requirements and compliance with these standards.

6) Maintaining a Capital Asset Management System for Equipment:

A separate accounting system, or component if the accounting system is integrated, should be used to record equipment. This system or component, referred throughout the standards as the *Capital Assets Management System*, should serve as the basis for the university's annual inventory. This system should be reconciled periodically to the general ledger. The frequency of this reconciliation is dependent on the timing of related postings made to the

general ledger asset accounts and the consistency of postings to the *Capital Assets Management System*. At a minimum, the *Capital Assets Management System* should be reconciled to the general ledger annually as part of the year-end procedures. (refer to the Record Maintenance section for further guidance on the sub-ledger to general ledger reconciliation)

See Appendix – Equipment Templates and Examples for Example of Banner User Guide (1.c)

7) Limiting Access to and Having Back-Up Procedures for the Capital Asset Management System:

It is important to limit access to the *Capital Assets Management System* to prevent any unauthorized changes of records in the system and to back up the system information to prevent loss of data. System access to create or change data fields related to the capital asset's records should be strictly limited and only permitted to those persons designated by the responsible official. Other university offices may have inquiry only access to the *Capital Assets Management System* when appropriate. If the *Capital Assets Management System* is dependent on subordinate action by campus departments, such as changing location or condition information, department personnel may be allowed access to change specified data, if authorized by the *Capital Assets Group*.

a) System access granted to an employee should be removed when the employee leaves the office, moves to another position, or is terminated. The university should have rules to ensure that system access to the *Capital Assets Management System* is reviewed every six months. The *Capital Assets Group* or other responsible office should maintain documentation for the six-month reviews.
b) Back up procedures should be in place to ensure that the system data can be recovered in case files become corrupt or damaged. The backup files should be maintained in a storage location that is secured.

8) Establishing Year-End Procedures Related to Equipment for Financial Statement Reporting Purposes:

The year-end plan for financial statement reporting should include the necessary procedures to review and ensure that the equipment accounts are fairly stated. This includes adjustments to capitalize equipment and for changes resulting from the annual physical inventory, the annual reconciliation of the general ledger to the *Capital Assets Management System*, and any depreciation adjustments. (Refer to the Record Maintenance section for further guidance on adjusting entries made for additions / disposals and depreciation at year-end)

9) Policies and Procedures for Equipment Below the Capitalization Threshold with Pilfering Risk:

a. The colleges/departments are responsible for safeguarding procedures for purchases of computers and other equipment with pilfering risk. Assets with pilfering risk include equipment that can be easily stolen, misplaced or lost such as computers, tablets, laptops, and other portable equipment.

b. As part of the Capital Asset Group (CAG) oversight responsibilities, internal control policies, procedures, and guidance should be established related to custodial college/department responsibilities over equipment below the capitalization threshold with pilfering risk. The purpose of the internal control policies, procedures, and guidance is to ensure that equipment below the threshold with risk of pilfering is properly safeguarded, accounted for, documented for audit/review purposes, and comply with the Capital Asset standards.
c. The CAG should address the following capital asset standard requirements for Non-Capital Equipment held by custodial colleges/departments in the internal control policies, procedures, and guidance for equipment below the capitalization threshold with pilfering risk, including:
    i. Record Maintenance Standard IV.A.2&6 – Evaluating and Reporting Missing Equipment and Authorizing Capital & Non-Capital Equipment to be taken Off Campus.
    ii. Retirements / Disposals Standard V.A.1&2&3 – Initiating, Communicating, Disposing, and Complying with State Rules and Regulations over Capital and Non-Capital Equipment.
d. A discussion of the internal control policies, procedures, and guidance for equipment below the capitalization threshold with pilfering risk should be included in the annual capital asset training discussed in 5 above.
e. The Capital Asset Group may consider compliance monitoring reviews, for example:
    i. Having an arrangement with the Internal Audit Office.
    ii. Having an arrangement with the IT service/support unit assigned control over support, maintenance, and administrative responsibilities.
    iii. Adding a certification to the annual reporting of tagged capital assets to the CAG.
    iv. Adding a walk-through review when performing spot checks of capitalized equipment.
f. Based on the institution's risk management objectives/policies and cost/benefit considerations, the internal control policies, procedures, and guidance for equipment below the capitalization threshold with pilfering risk should consider:
    i. College/departments maintaining an inventory control list of equipment with pilfering risk. The list may include item description, serial number, date acquired, purchase reference #, person assigned, location, comments.
    ii. Having assigned/responsible person attend the annual training provided by the CAG.

B - Buildings

1) Establishing Policies, Procedures and Guidelines for Accounting of Buildings:

Policies and procedures over buildings should be clearly documented and communicated to the staff responsible for the accounting and reporting of buildings for financial statement purposes. Policies and procedures governing the activities for accounting and reporting of buildings should be established by the *Capital Assets Group*.

See Appendix – Buildings Template and Examples for an Example of Policies and Procedures over Buildings (1.a)

a) Policy and procedures should contain guidance for the staff performing the accounting and financial reporting of buildings and may include the following topics:
   i) Capitalization Policy
   ii) Capitalization of Interest Expense During the Construction Period
   iii) Depreciation Policy
   iv) Methods, systems, electronic worksheets used for accounting and financial reporting of building assets and reconciliation of those to the GL
   v) Standard procedures for identifying building projects / activities for both CI budget codes and non-CI activities, and procedures for completing the CIP worksheet
   vi) Communications required during the year or at year-end regarding real estate purchases, real estate leases, capital purchases or transfers from affiliated organizations, and capital gifts
   vii) Communications required during the year or at year-end regarding the sale or disposal of real property
   viii) Communications required to determine that the buildings are complete and are no longer CIP but depreciable property
   ix) Communications with or comparison to Facility operations or other appropriate office regarding building information they may have. May include information such as, building locations, building names / codes, date of inspections, date building completed / date of approval by the State Construction Office to occupy
   x) Communications with oversight offices regarding maintenance, inspections, and material impairments
   xi) Understanding of the procedures over the authorizing, processing, and certifying of construction contract payment applications
   xii) Understanding of the CI budget accounting and reporting process (BD725)
   xiii) Understanding of the procedures over identifying non-CI fund capital assets
   xiv) Year-end adjusting entries needed for financial reporting
b) Annually, the policies and procedures should be reviewed and updated.
c) The policy and procedures should be accessible by all employees associated with the accounting and financial reporting process.

2) Training of Employees:

Employees associated with the accounting and financial reporting of buildings should receive appropriate and relevant training on the related policies and procedures. Training materials should be reviewed and updated when appropriate.

3) Segregating Duties of Employees:

Positions responsible for the buildings' accounting and financial reporting function in the *Capital Assets Group* should be segregated from persons having:

a) Responsibility of custody / maintenance
b) Responsibility for approving and making payment on construction contracts
c) Responsibility for the contracting and approval of construction projects

(See the General Management - Equipment standards, section 3 for information regarding examples of compensating controls)

4) Establishing and Maintaining an Accounting System for Buildings and CIP:

A system module, stand-alone system, database application, electronic worksheet, or combination thereof should be used for accounting and financial reporting purposes related to the university's buildings. The accounting and reporting methods may vary depending on if the construction project is in progress or completed and whether an integrated system is utilized. The methods and systems used should be discussed in the policy and procedures manual. The system should be reconciled periodically to the general ledger. The frequency of this reconciliation is dependent on the timing of related postings made to the general ledger asset accounts and the consistency of postings to the *Capital Assets Management System*. At a minimum, the *Capital Assets Management System* should be reconciled to the general ledger annually as part of the year-end procedures.

5) Limiting Access to the Accounting System for Buildings and CIP:

It is important to limit access to the *Capital Assets Management System* to prevent any unauthorized changes of records in the system and to back up the system information to prevent loss of data. System access to create or change data fields related to the capital asset's records should be strictly limited and only permitted to those persons designated by the responsible official.

6) Establishing Year-End Procedures Related to Buildings and CIP for Financial Statement Reporting Purposes:

The year-end plan for financial statement reporting should include the necessary procedures to review and ensure that the buildings accounts are fairly stated.

Process II – Initiation / Acquisition

A – Equipment

1) Recording and Tracking Capital Equipment Acquisitions:

Universities should use a *Capital Assets Management System* to record and track equipment acquisitions that meet the OSC capitalization requirements, or that are required to be tracked / inventoried by contract / grant terms and by appropriate OMB guidance (OMB Circular A-21 or Uniform Guidance) or by the capital asset policies and procedures.

a) Only equipment acquisitions that meet the OSC capitalization requirements can be reported on the university's financial statements as capital assets. Those not meeting the OSC capitalization requirements would be expensed.

2) Complying with Federal Regulations over Acquisition of Capital Equipment Assets:
Capital assets acquired with federal funds are subject to additional requirements set forth in the federal award and the appropriate OMB guidance (OMB Circular A-110 or Uniform Guidance). However, federal agencies may classify equipment property in the federal grant award as "exempt property" from OMB guidance (OMB Circular A-110 or Uniform Guidance (section 200.312(c)) and have no other conditions / restrictions and fewer administrative requirements. The *Capital Assets Group* should consult the Office of Contracts and Grants for requirements on equipment purchased with federal funds. Information recorded and tracked in the *Capital Assets Management System* should provide for identifying equipment assets purchased with federal funds. Auxiliary systems may also be used for accounting of equipment purchased with federal funds and may be prospectively recorded when implementing these standards.
   a) All federal equipment purchased meeting the OSC threshold should be tracked using the normal inventory / tagging process and be flagged as purchased with federal funds in the *Capital Assets Management System*.
   b) If amounts under the capitalization threshold are required to be tracked by the federal award or the appropriate OMB guidance (OMB Circular A-21 or Uniform Guidance), other record keeping methods, including a worksheet or list, may be used to comply with this requirement. In these cases, the *Capital Assets Group* should consult with the Office of Contracts and Grants to determine if they or the *Capital Assets Group* should maintain this information, and if so, what information should be maintained.
   c) Federal agencies may at times require that title to equipment purchased with its funds be retained by the federal government. In accordance with OSC policy, equipment purchased with federal funds that are greater than or equal to the established capitalization threshold and that the university does not hold title should not be capitalized for financial statement reporting purposes. In these cases, the *Capital Assets Group* should consult with the Office of Contracts and Grants to determine if they or the *Capital Assets Group* should maintain this information, and if so, what information should be maintained.

3) Identifying and Recording Capital Equipment Assets:
Capital equipment can be acquired by the university in a variety of ways. The following are the most common ways to acquire capital equipment:
   a) Purchases
      i) Typically, departments authorize new equipment acquisitions by initiating purchases through the purchasing / procurement system. The purchasing / procurement system generates purchase orders, and the *Capital Assets Group* may run a report identifying all purchase orders greater than or equal to the capitalization threshold. In addition, the *Capital Assets Group* may use accounts payable reports to identify purchases. The *Capital Assets Group* will monitor the purchases and identify equipment that should be capitalized based on the university's capitalization rules. Equipment may be automatically identified for capitalization if the university's purchasing system and

Capital Assets Management System are linked. If linked, verification of the entry should be made by the *Capital Assets Group* prior to the transaction being posted to the *Capital Assets Management System*. The timing / frequency of the monitoring steps performed on purchased equipment should be frequent enough to ensure that assets are identified, tagged, and recorded in the *Capital Assets Management System* within a reasonable time frame:

(1) Purchased equipment that is potentially a capital asset should be identified for determination of capitalization within an average of 30 days from the invoice payment date.
   (a) The 30-day identification requirement excludes items not placed in service, fabricated items, equipment purchased through CI funds, items that are misclassified as non-capital items, donated equipment, capital lease equipment, and items that are off-campus or in remote locations for which tagging is done by the CAG.
   (b) While the items in (1a) above are excluded from the 30-day identification standard, they should be identified as soon as practical and recorded on the CAMS for purposes of the annual financial statements.

(2) Purchased equipment determined to be a capital asset should be tagged within an average of 60 days of the invoice payment date or in-service date, whichever is later
   (a) The 60-day tagging requirement excludes the same items in (1a) above.
   (b) While the items in (2a) are excluded from the 60-day tagging standard, they should be tagged as soon as practical and recorded on the CAMS for purposes of the annual financial statements.

(3) Equipment tagged through the end of June should be recorded on the *Capital Assets Management System* by the end of August.

(4) Given the 30-day identification standard and for the purposes of reporting on the annual financial statements, purchased equipment made in the month of June may be treated as accrual items on CAMS if not identified as a capital asset by June 30th. Accrual items would include purchases paid for in June and not identified as a capital asset, accounts payable items or year-end close pending items not paid for in June. The *Capital Assets Management System* may be closed for computation of depreciation after the purchased equipment identified for May purchases have been recorded or June purchases if they are identified in the month of June. The accrual items are treated as reconciling items and should be recorded on the financial statements as assets if received by June 30th. Generally, depreciation on the accrual items may not be necessary due to the timing of the identification, the immaterial effect of those items on depreciation and the limited time or question of the item being placed in service. However, if the effect of depreciation on the accrual items is considered material by management, depreciation on part of all of the accrual items should be recorded to ensure fair presentation of the financial statements.
   (a) In addition, management may establish an earlier cut-off of May for depreciation calculation purposes if the effect of such depreciation is

immaterial to the financial statements, included in their Year End Plan and made in accordance with the procedural guidance on Year End Planning and Procedures for Financial Reporting. When doing this, the university should document that the cycle change would not have a material effect on the financial statements.

ii) When capital equipment is *received, accessible and available for use,* the *Capital Assets Group* should be notified, and the equipment should be tagged. If the equipment is received but is not accessible or available for use, the tag should be affixed when it becomes accessible and available for use, whether placed in service or not. (Refer to sections 4 and 5 for further guidance on receiving and tagging*).*

iii) *The Capital Assets Group* should also review supply and material expense account activities for misclassifications of capital equipment items.

(1) This may be done on a risk-based approach considering the history of misclassifications by campus departments.

(2) Management should consider the possibility of capital assets being reported as supplies and materials in the financial statements. If the effect of an error is considered immaterial, then review for misclassification would not be productive or meet cost benefit considerations. If the effect of an error could be material, then review for misclassifications should be performed to mitigate the risk of error. The extent and degree of procedures performed is a management decision and should be considered based on the potential for error (risk) and the cost benefit of correcting the unknown error.

(3) Procedures for considering potential error in reporting equipment assets that could result from misclassifications in supply and material accounts and the steps performed by the *Capital Assets Group* to reduce the risk to an acceptable level should be documented. Procedures used may include using a threshold value; such value must be approved by the Controller. See the UNC Business Process Procedural Guidance for Year End Planning and Procedures for Financial Reporting for guidance on understanding risk and materiality and using thresholds.

iv) Equipment is recorded at the purchase price plus shipping fees, setup cost, and legal fees.

b) <u>Capital Gifts / Donations</u>

i) If capital equipment is donated to the university, the equipment's value should be recorded as capital gifts at the acquisition value on the acquisition date. This includes equipment donations from affiliated organizations that are not component units (see section "e" on Transfers from Affiliated Organizations).

ii) If the acquisition value of the donated equipment is greater than or equal to the established capitalization threshold and is to be used in university operations with an expected useful life of 2 or more years, the donated equipment should be tagged and recorded in the *Capital Assets Management System.*

iii) Capital equipment gifts to the university should be communicated to the *Capital Assets Group* by the receiving department. If a central office is established to accept such gifts, the *Capital Assets Group* should communicate with that office to obtain

information related to capital equipment donations. The *Capital Assets Group* should evaluate the reported capital equipment donations to determine if they meet the capitalization policies and for tagging and recording purposes during the interim periods and before the end of June. Items identified after the month of June related to the current financial statement period are treated as accrual items. See method for accounting of accrual items in section 3ai4.

iv) Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. The *Capital Assets Group* should evaluate the acceptance by the department or central office as to the valuation of the gift as well as the potential utilization of the equipment gift prior to recording.

(1) Acquisition value is a market-based entry price. Acquisition value may be calculated from manufacturers' catalogs or price quotes in periodicals, recent sales of comparable assets, or other reliable information. Other reliable information may include recent independent or tax appraisals if they are deemed to be reasonable considering existing market conditions and the service potential to the institution at the acquisition date.

(2) Use of the donated equipment can be validated when the asset is tagged or by submission of the asset information report to the *Capital Assets Group*.

c) <u>Leases (Previously Capital Leases)</u>

i) Equipment acquired through a lease or scheduled payment arrangement contract and considered a financed purchase should be capitalized, tagged, and recorded to the Capital Asset Management System when meeting the institution's capitalization criteria.

(1) A financed purchase occurs when the terms of a contract do not have a termination option available and either (1) transfers title of the underlying asset to the institution by the end of the contract term or (2) has a purchase option that the institution has exercised.

(2) The value of an underlying capital asset associated with a financed purchase is determined by the present value of the contract amount less any amounts included for expendable supplies and maintenance expense. Amounts paid for supplies and maintenance expenses should be recorded as such when paid.

(3) The review for contracts that are financed purchases should be done during the interim period and before the end of June. Items identified in the accrual period should be treated as an accrual item (see "Initiation / Acquisition – Equipment" section II.A.3ai4).

ii) Equipment acquired through a lease contract that is not considered a financed purchase, but is significant to the institution's financial statements, should be accounted for and reported in accordance with GASB 87 "Leases" requirements.

(1) In doing this, the institution should document its policy and procedures related to its consideration of what is a significant lease, its review for significant equipment leases, the completion of a GASB 87 checklist related to the significant leases and/or use of lease software meeting the GASB 87 requirements to determine the

required accounting entries and to support the related financial statement balances for the intangible lease asset and lease payable current and long-term liability amounts.

(2) A list of the leased equipment reported as intangible capital assets must be maintained either within the Capital Asset Management System, other electronic worksheets, or available lease software that includes pertinent information for support of accounting entries and balances. Pertinent information may include, for example, the related asset class, amortization rates, beginning lease date, lease term, options to extend, options to terminate, options to purchase, name of lessor, description of the underlying asset, value of the underlying asset, contract price, expendable items included in the lease contract, contract reference/PO number, discount rate, identifying information, tag number, etc.

(3) Leased equipment reported as intangible capital assets should be validated and reconciled to the official list maintained in 2, when performing the annual equipment physical inventory procedures.

d) Tangible Fabricated Items

i) Assets that are built by combining parts and materials at the department level are considered tangible fabricated items. Any fabricated item that works as one asset is subject to capitalization if the following criteria have been met:

(1) Because of the experimental nature of fabricating equipment, a fabrication must be complete and usable at the time of capitalization.

(a) The sum total of the fabrication should not include (1) any charges for parts not used in the final fabrication of the asset or (2) allocation of department labor cost, except when specifically billed by an internal service center or service contractor for direct work on the fabrication.

(b) The sum total of all parts and services used in the final fabrication is greater than or equal to the established capitalization threshold.

(c) The fabrication must have a useful life of at least two years after completion to be considered capital in nature.

(d) After the fabricated item is capitalized, future upgrades and additions can be added as a separate capital asset item, but the base form and use of the fabrication must be initially complete to capitalize.

ii) It is the fabricating department's responsibility to track the cost of the fabrication and, if the fabrication meets the capital criteria, to report the equipment to the *Capital Assets Group.* The *Capital Assets Group* will prepare a tag for the newly fabricated equipment.

iii) Items that are put together as one asset but use separate parts that are interchangeable and can be reconfigured to another form such as modular workstations or cubical office installations are generally not capitalized but under certain situations maybe. The university should describe their policy over capitalization of modular workstations or cubicle office installations in their capital asset policies and procedures (see Initiation/Acquisition – Buildings, section 4.li for more information).

e) Transfers from Affiliated Organizations

i) Equipment purchased from an affiliated organization that is not a component unit of the university's reporting entity for which reimbursement is made, or for which a negotiated amount is paid, is treated as a purchase and follows the guidelines listed above in section 3.a for purchased equipment.

ii) Equipment transferred from an affiliated organization that is not a component unit of the university's reporting entity for which no reimbursement is made, or for which there is no negotiated amount paid, is treated as a capital gift / donation (see section "b" for standards to record capital gifts).

iii) If the purchase or transfer / gift from the affiliated organization is a related party and not a component unit of the university and the transaction is significant to the university's financial statements, the university should disclose the transaction in the related party note of the financial statements as required by GASB #62 (Codification Section 2250.101-.102,.107-.108).

iv) For a capital item transferred or purchased from a component unit of the university's reporting entity, GASB 48 requires that the transaction be recorded at the carrying value of the transferor.

(1) The difference between the amount paid and the carrying value of the assets transferred should be reported as a gain or loss by the transferor and as revenue or expense by the transferee, in their separately issued statements, but reclassified as subsidies (capital gifts) in the financial statements of the reporting entity.

(2) The *Capital Assets Group* should review the method and life utilized by the component unit to depreciate the transferred capital equipment. If the deprecation method or rate is in variance with OSC policy or ranges, a new depreciation method and rate for the remaining asset values not yet depreciated should be established.

(3) Equipment transferred from an affiliated organization that is considered a blended component unit may get complicated due to blending entries in the 13th month. Management may consult with the auditor, if necessary, to ensure proper treatment of the transfer and its effect on year end blending entries.

4) Documenting the Acquisition of Capital Equipment Assets:

The *Capital Assets G*roup should develop and implement a standard asset information report for documenting the acquisition of new equipment and for obtaining the necessary information for the *Capital Assets Management System*. The standard asset information report may be an automated report generated by the *Capital Assets Group* or be manually completed by a responsible central office or by the campus departments. If not utilizing an automated report, when assets are received, the asset information report should be completed and either forwarded to or made available to the *Capital Assets Group*. The *Capital Assets Group* collects the acquisition's identifying information from the purchasing

system, the vendor invoice, and asset information report, enters the acquisition into the *Capital Assets Management System* (if not automated), and creates a tag for the asset.

a) Asset Information reports, purchase orders, and invoices should be maintained by the *Capital Assets Group* or be available for inspection via electronic or manual means in accordance with the university's record retention policy.

5) Tagging Capital Equipment Assets:

Tagging is the process of placing an identification number on each capital asset held by the university. Sequentially numbered item tags should be used. This process helps the *Capital Assets Group* maintain unique identification for each equipment asset. Tagging is important to control the location of equipment, aid in the physical inventory process, and provide a common method of identifying and communicating asset information by which all campus users can follow.

a) The standard asset information report noted in #4 should be used for the identification of information required by the *Capital Assets Management System*. At most universities, the completion of this report is related to the tagging process where critical identifying information is obtained such as serial and model numbers. The related procedures and this template should be described in the capital asset policies and procedures.

See Appendix – Equipment Templates and Examples for Example of an Asset Identification Template (2.a)

b) When equipment meeting the capitalization criteria enters the university, the *Capital Assets Group* is notified through the asset information report and a tag is prepared for the newly acquired equipment.
   i) As noted in II.3.a (ii), capital equipment that is *received, accessible and available for use,* should be tagged.
   ii) If the equipment is received but is not accessible or available for use, the tag should be affixed when it becomes accessible and available for use, whether placed in service or not.
   iii) If the equipment is received, accessible and available for use but has not been placed in service, tagging may be delayed if justified in writing. In this case the department holding the equipment must provide a written justification statement to the controller or other responsible officer as to its reason for the equipment not to be tagged. If the controller or other responsible officer agrees with the written justification, the equipment may be tagged at a date agreed to after the reasons for justifying the delay in tagging have expired. The approved written justification should be maintained as part of the equipment records by the *Capital Asset Group*.

c) The *Capital Assets Group* or a designee should affix this tag to the equipment. The tag should be affixed to the equipment in the same place for similar types of equipment. When equipment is tagged, it should be inspected to ensure it is consistent with the invoice and purchase order.

d) Equipment should be inspected and tagged by a staff member with the appropriate training and experience, regardless of whether this staff member resides in the *Capital Assets Group*, central office, or at the departmental level.

6) Maintaining Capital Equipment Asset Information in the Capital Asset Management System:
The *Capital Assets Group* or other appropriate office records at a minimum the following information for each equipment asset in the *Capital Assets Management System* or other auxiliary system: (NOTE - When there is a shared responsibility for maintaining equipment records between the CAG and the Contracts and Grants Office, the CAG should include an understanding of these responsibilities in the CAG's written policies, procedures, and guidelines.)
   a) Tag number
   b) Location
   c) Responsible Department
   d) Property Description
   e) Equipment Serial Number and Model Number
   f) Date Placed in Service and Date Acquired
   g) Acquisition Amount
   h) Source of Funding (i.e. Fund Number)
   i) Ownership (who holds title of the property – University / Federal Government / etc.)
   j) Federal Award Identification Number "FAIN" (for all property acquired/purchased with Federal funds regardless of ownership)
   k) Percentage of Federal Participation (for all property acquired/purchased with Federal funds regardless of ownership)
   l) Description of How Property is Used (for all property acquired/purchased with Federal funds regardless of ownership)
   m) Condition Code (optional except for all property acquired/purchased with Federal funds regardless of ownership)
   n) Commodity Code (optional)
   o) Asset Class
   p) Useful Life
   q) Date and Sales Price of Disposal (for all property acquired/purchased with Federal funds regardless of ownership)
   r) Others (as required by the capital asset policies and procedures)

See Appendix – Equipment Templates and Examples for an Example of Information Recorded in a CAMS System (2.b)

7) Accounting for Equipment Held for Investment Purposes:
Capital equipment assets that meet the definition of an investment must be valued, reported, and disclosed as an investment.
   a) Capital equipment assets that are held primarily for income or profit and the asset's present service capacity is based solely on its ability to generate cash or to be sold to generate cash should be valued, reported and disclosed as an investment.
   b) Capital equipment assets that are held to provide present service capacity related to its institution's mission and program objectives and for purposes to generate income and profit should be treated as capital assets.

c) The determination of whether an asset is held primarily for the purpose of income or profit or whether its present service capacity is based solely on its ability to generate cash or to be sold to generate cash is based on actions by a government's management at acquisition. Once the government determines whether the asset is an investment or another type of asset, the classification should be retained for financial reporting purposes, even if the government's usage of the asset changes over time. For example, an asset that is initially reported as a capital asset and later is held for sale should not be reclassified as an investment.

8) Evaluation of the Capitalization Threshold for Equipment and Accounting for Equipment Assets Under the Threshold that are Considered Significant:
Annually, an evaluation of the effectiveness of the capitalization threshold for equipment should be made to determine if in the aggregate, equipment assets expensed under the threshold are considered significant.
   a) If significant, an adjustment should be made to record the significant equipment assets to the Capital Asset Management System. May use a group/ layered group approach.
   b) If the evaluation is not performed annually, the institution should document the reasons for that as part of the year-end work.

See Appendix – Equipment Templates for Evaluation of the Effectiveness of the Threshold for Capitalization of Machinery and Equipment and Determination of Amounts Under the Threshold that are Considered Significant for Financial Statement Reporting Purposes. (2.c)

B - Buildings

1) Recording and Tracking Building and CIP Activities:
Universities should use a *Capital Assets Management System* to record and track buildings and related depreciation if they meet the OSC capitalization requirements.
   a) Buildings that are being constructed are recorded as non-depreciable Construction in Progress prior to the Certificate of Occupancy and date they are placed in service.
   b) Once the buildings receive a Certificate of Occupancy and are placed in service, they are classified as depreciable property.

2) Identifying and Recording Building and CIP Activities:
Buildings are generally acquired by the university through construction contracts. However, some may be purchased with the construction having been completed and others acquired through a capital lease arrangement. After the appropriate approvals from the State of North Carolina and UNC System Office are received for specific construction or purchases of real property, contracts are negotiated and awarded through the purchasing / construction / legal offices. In addition, Capital Improvement Projects are set up in specific Capital Improvement (CI) Budget Codes in the University Budget Office or other responsible office as a control over the approval and spending of funds for buildings. Universities are allowed to make expenditures in their state operating budget for repairs, maintenance, and equipment

purchases less than $100,000. Expenditures for repairs, maintenance, and equipment purchases between $100,000 and $300,000 may be allowed in the state operating budget provided proper budget approval has been obtained from the Capital Section of OSBM. Trust funds are subject to the same rules as state funds for accounting and reporting construction projects in the CI Budget Codes. However, repairs and maintenance expenses from operating funds may be authorized from trust funds at levels determined by the university without OSBM approval. These types of expenditures allowed in the state operating budgets are not intended to provide supplemental funds for a formal capital project and shall only be used for individual repair and maintenance projects or equipment purchases. (3.10.2 NC Budget Manual). Following are requirements for acquisitions through (a) Capital Improvements Budget Codes and (b) Operating Funds (state and trust funds)

a) Capital Improvement Budget Codes
   i) Identifying and Monitoring Construction Activities: All construction projects must comply with the State of North Carolina and UNC System Office requirements as established by the State Construction Office and the UNC Board of Governors before construction contracts may be awarded. Once approved, accounting and reporting of the construction is established using Capital Improvement Budget Codes. The CI budget codes are strictly managed and controlled by the University Budget Office or other appropriate office. Each construction project under the CI project may be given a separate and distinct accounting code for tracking purposes. In addition, some universities may have a separate and distinct purchase order number issued by purchasing to track contracts. The *Capital Assets Group* can identify and monitor construction activities by using the established CI budget codes, the accounting funds / units established for recording the activity to the general ledger, or the purchase orders, if tracked by the university and the associated invoices or construction documents.
   ii) Determining Construction Costs that are Capitalized vs Expensed: In addition to the contract or expended amounts being equal to or greater than the capitalization threshold and the asset having a useful life of 2 or more years, the following should be considered when determining which construction contracts should be capitalized vs. expensed:
      (1) Construction activities to an existing building that significantly extends the useful life of the building should be considered for capitalization
      (2) Equipment affixed to the building should be considered for capitalization
      (3) Equipment not affixed to the building that are include in contracts or construction expenditures should be reviewed separately for capitalizing as equipment
      (4) Construction activity to an existing building that is for general maintenance or ordinary repairs or replacements that restore or keep the building in good operating condition, do not increase the future service potential of the building, or significantly increase the asset's useful life, should be expensed.
      (5) Construction activity to existing buildings that are extraordinary repairs or replacements, renovations, or rehabilitations that increase the future service

potential of the building or significantly increases the asset's useful life should be considered for capitalization.

(6) When making these considerations, the *Capital Assets Group* reviews the CI budget codes, and / or the accounting funds / units and the associated contracts or invoices, or the Final Report required by the State Construction Office. In addition, communication with offices such as facilities operations or other offices responsible for oversight of construction and / or real estate additions may occur.

iii) Utilizing a CIP Worksheet: For construction costs that should be capitalized, the activity during the construction phase should be recorded in the *Capital Assets Management System* including the use of a CIP worksheet to track the changes in the construction account. Generally, if a worksheet is used, it is completed / updated annually, but associated activity may be monitored during the year.

See Appendix – Buildings Templates and Examples for an Example of a CIP Worksheet (7.a)

iv) Tracking Construction Costs: Tracking of the construction cost on the CIP worksheet may be by budget code, fund code, purpose code, or a combination thereof and may include the name or building code of the building.

v) Reviewing Contractor Payment Applications: At the end of each fiscal year, the final invoice by the contractor (payment application / architect certificate) should be reviewed for work performed through the end of June (the fiscal year-end) to determine the values for the ending construction in progress amounts and amounts payable for retainage. This information may also be used for confirmation of the contract payable recorded by accounts payable.

(1) The person assigned to complete the CIP worksheet, should communicate with the Facilities, Construction, or other appropriate oversight office, as considered necessary and based on risk factors:

(a) To ensure that the final construction invoices for work performed through June 30th are received in an orderly and timely manner so as to be able to complete the CIP worksheet within the time schedules provided for in the Year End Plan for the accrual process.

(b) To monitor and assure accuracy when the coding of the CI budget codes is relied upon for recording to the CIP worksheet and the removal of expendable (non-capital) items as well as equipment that is purchased through the CI funds.

(2) When payment applications are not received in an orderly or timely manner for completion of the CIP worksheet within the time schedules provided for in the Year End Plan for the accrual process, considered the following:

(a) Discuss the missing payment applications with the Facilities, Construction, or other appropriate oversight office prior to the scheduled completion date to determine if they have the missing items or, if not, a determination of an estimate of the payable amount outstanding through the June 30th period to record on the CIP worksheet.

(b) If an estimate is recorded, perform subsequent events review to determine that the estimate recorded was materially correct.

(c) If the estimated amount is not material, may pass on the adjustment if approved by the controller.
(d) If the estimated amount is uncertain, may delay recording until the actual pay application is available and, if material, make post OSC ACFR adjustment.
(e) Discuss other options in resolving missing payment applications that you believe are reasonable under the circumstances with the auditors. Document the discussion and the auditor's conclusion when other options are used for missing payment applications.

(3) In addition, the year-end review of contractor invoices may indicate whether the construction is complete. If so, the *Capital Assets Group* should consult with the Facilities, Construction, or other appropriate oversight office as to the date of the Certificate of Occupancy and the date placed in service. The accumulated cost of construction should be recorded on the *Capital Assets Management System* when the building has been approved for occupancy by the State Construction Office and is placed in service.

b) Operating Funds (State and Trust)

i) Reviewing Repair and Maintenance Activities for Material Misclassifications: Operating Funds (State and Trust) may be used for less substantial projects. Repair and maintenance activity in the operating funds should be reviewed to identify and record expenditures that meet the capitalization policy requirements. This review should follow the same process considerations as for equipment (see Initiation/Acquisition – Equipment section 3(a)(iii).

(1) Expenditures charged as repairs and maintenance could be for capital asset items if they meet the requirements for capitalization of repairs and renovations.

(a) Care should be given to distinguish between maintenance costs, which are expensed, and repair, replacement, renovation, or rehabilitation cost that could be capital items. For example, energy conservation projects that guarantee energy savings to exceed costs should generally be capitalized since these projects increase the efficiency and future service potential of the asset and are not routine maintenance.

3) Reviewing and Evaluating Contractor Payment Applications / Contract Invoices:

During the construction phase, the architect reviews the contractor's invoice, the construction-to-date, and monitors the contractor's performance. If acceptable, the contractor's invoice (payment application) is approved by the architect (Architect Certificate). All payments to the contractor must be approved by the architect prior to payment.

a) Completion of work performed as indicated on the payment application is important in determining the status of construction especially as of the end of the fiscal year. Cost should be accrued based on the payment applications billed and paid after the June OSBM cut-off date for work performed through the end of June, if available. Payment applications for the period through June that are not available for uncompleted projects may be estimated by communication or confirmation with the construction office and/or

review of billings prior to the missing data. For amounts not available and estimated, only amounts considered material should be considered for year-end financial statement adjustment purposes. See the procedural guidance on Planning and Procedures for Financial Reporting for discussion on using materiality.

i) The CAG should also consider working with the construction office during the interim period and/or before year-end in May or June to prepare for the year-end close and to obtain assistance from the construction office for information relative to the change in status of buildings, the accumulation and support for unpaid construction contract amounts due on work performed prior to July, as well as outstanding amounts remaining on the contracts and any retainage withheld.

4) Determining Capitalization Values for Building Assets:

When a building is complete, the capitalization value must be determined before it is added to the *Capital Assets Management System*. All costs associated with the building including labor and materials, should be included in the capitalized cost of the building.

a) Construction Costs: Buildings acquired through construction contracts are valued at the amount actually paid on the contract less amounts to be capitalized as equipment or expensed plus any fees associated with the design, architect contract, interest on debt prior to July 1, 2019, and insurance premiums during the construction phase. The Final Report on the construction project should be obtained and reviewed to determine the contracts and amounts included in the construction and to verify the amounts that should be capitalized or removed from the capitalized amount.

b) Additional Cost incurred after the building is recorded: If additional costs are incurred after a building is capitalized, those costs would generally be tracked to the building and recorded to a separate asset number but, if possible, may be added to the original value of the building for recording and depreciation purposes.

c) Land: The value of land should be separately recorded from the building as a non-depreciable capital asset. If property with a building is purchased for land purposes and the building is demolished, the cost of the purchase and cost to demolish the building would be considered cost of non-depreciable land.

i) If the building is not demolished but the plan is for it to be demolished and the building is not to be used in the interim, the building is considered part of the cost of the land.

ii) If the building is not demolished but the plan is for it to be demolished and used in the interim, materiality of the interim use to the financial statements would determine whether to capitalize as a building. Generally, buildings used on an interim basis would not be considered material and in those cases, the value of the building would be considered part of the cost of the non-depreciable land.

(1) However, if material, the length of time of the building's planned use as compared to its estimated useful life determines whether it will be capitalized as a separate depreciable asset. If the building will be used for 2 years or more and the planned use is less than the building's estimated useful life, the building would be capitalized at an amount that would be derived by (1) determining the percentage of planned use to the estimated useful life of the building, (2) determining the

purchase price of the building, and (3) applying the calculated percentage of planned use to the purchase price of the building.

d) Land Preparation Costs: Site preparation costs, considered ordinary and necessary to get the land ready for its intended use should be capitalized as land. These costs along with the value of the land are not depreciated, and may include site preparation costs such as grading, filling, draining, and clearing, and the cost to demolish buildings or other structures that are intended to be removed when the land is acquired.
   i) Buildings and other structures not intended to be removed and used as a permanent asset should be valued separately, depreciated over their useful life, and not included in the amount recorded as land.
   ii) Land improvements as opposed to land preparation costs wear out and must be depreciated over their useful life. Land improvements may include parking lots, sidewalks, landscaping, irrigation systems and similar expenditures.

e) Fees and Other Costs Associated with the Building: Buildings acquired through a purchase are valued at the purchase price. Any fees such as broker fees or attorney fees associated with the building purchase should be included in the purchase price. Other costs that may be included are title fees, appraisal fees, and other closing costs.

f) Donated Buildings: Buildings donated should be recorded at the acquisition value at the acquisition date (this does not include buildings transferred from affiliated organizations that are component units).
   i) Building donations follow the same rules as equipment donations (see "Initiation / Acquisition – Equipment" section 3b.iv and 3b.iv (1)).
   ii) The *Capital Assets Group* should have procedures in place to identify buildings that are donated to the university.

g) Transfers from Affiliated Organizations: Buildings transferred to the university by an affiliated organization follow the same rules as equipment transfers (see "Initiation / Acquisition" – Equipment" section 3.e).

h) Leases:
   i) Buildings acquired through a lease contract and considered a financed purchase should be capitalized and recorded to the Capital Asset Management System when meeting the institution's capitalization criteria.
      (1) A financed purchase occurs when the terms of a contract do not have a termination option available and either (1) transfers title of the underlying asset to the institution by the end of the contract term or (2) has a purchase option that the institution has exercised.
      (2) The value of an underlying capital asset associated with a financed purchase is determined by the present value of the contract amount less any amounts included for expendable supplies and maintenance expense. Amounts paid for supplies and maintenance expenses should be recorded as such when paid.
      (3) The review for contracts that are financed purchases should be done during the interim period and before the end of June. Items identified in the accrual period would be treated as an accrual item (see "Initiation / Acquisition – Equipment" section II.A.3ai4).

ii) Buildings acquired through a lease contract that is not considered a financed purchase, but is significant to the institution's financial statements, should be accounted for and reported in accordance with GASB 87 "Leases" requirements.
   (1) In doing this, the institution should document its policy and procedures related to its consideration of what is a significant lease, its review for significant building leases, the completion of a GASB 87 checklist related to the significant leases and/or use of lease software meeting the GASB 87 requirements to determine the required accounting entries and to support the related financial statement balances for the intangible lease asset and lease payable current and long-term liability amounts.
   (2) A list of the leased buildings reported as intangible capital assets must be maintained either within the Capital Asset Management System, other electronic worksheets, or available lease software that includes pertinent information for support of accounting entries and balances. Pertinent information may include, for example, the related asset class, amortization rates, beginning lease date, lease term, options to extend, options to terminate, options to purchase, name of lessor, description of the underlying asset, value of the underlying asset, contract price, expendable items included in the lease contract, contract reference/PO number, discount rate, identifying information, location information, building reference number, etc.

iii) Leased buildings reported as intangible capital assets should be validated and reconciled to the official list maintained in 2 and included in discussions with facility management / real estate office when performing the year end communications about the existence of, improvements to, or impairments to building assets.

i) Improvements Made to Leased Buildings: The treatment for improvements to leased buildings that meet the capitalization criteria depends on whether the lease contract is considered a financed purchase or not.
   i) If the lease contract is a financed purchase, the improvements should be accounted for as a purchase as provided for in section II.B.4hi.
   ii) If the lease contract is not a financed purchase, the improvements should be capitalized to an appropriate capital asset class and depreciated over the specified term of the lease (including any option to extend or terminate the lease period if it is reasonably certain the lessee will exercise the option), or the life of the improvement whichever is shorter.
   iii) If the lease contract is not a financed purchase and has a purchase option provision that is reasonably likely to be exercised by the lessee, the improvement should be capitalized to an appropriate capital asset class and depreciated over the useful life of the improvement.

j) Internal Resources Used for Buildings: Internal resources such as labor, material, and supplies can be used to build or add to an existing building. When these resources are used, they should be capitalized as part of the building at the amount billed or, if not billed, the price an outside resource would charge to perform similar services.

k) Building Renovations, Re-Habilitations, or Extraordinary Repairs or Replacements: If parts / components of a building are removed as part of a renovation, re-habilitation, or

extraordinary repair or replacement that meet the criteria for capitalization, the original cost, and the accumulated depreciation on the part / component of the building being removed should be retired.

i) Because of the difficulty in measurement and problems with *Capital Assets Management Systems* not allowing asset values and / or accumulated depreciation to be changed for restatement purposes, a university's ability to record retirements for components of a building may be improbable unless using the component method of accounting.
   (1) The retirement adjustment should be made when one or more of the following are true*:*
      (a) The adjustment is material to the financial statements. In addition to quantitative factors, qualitative factors must be considered including the effect on the buildings remaining net book value and the potential for having a fully depreciated building value before the building is either disposed of or impaired.
      (b) Difficulty does not exist in obtaining information or adjusting the *Capital Assets Management System,* the retirement adjustment can be reasonability obtained or estimated, and management is reasonably comfortable with the adjustment results. If actual amounts cannot be determined, campuses may consider the following example estimation methods or others as considered appropriate by management:
         (i) communication with construction and/or risk management as to the % of the building part/component being replaced or
         (ii) the application of the following standard #2 to determine discounted values associated with the replaced part/component using dollar value tables).
      (c) Component accounting is used
   (2) For retirements associated with replaced components, historical values should be used when available. If those amounts are not available, discounted or estimated amounts, using dollar value tables, may be used to determine the amount to retire.
      (a) For example, a new HVAC is installed to replace a 25-year-old system that significantly improves the utility costs of the building and therefore is considered to meet the rule for capitalization of repairs or renovations:
         (i) An HVAC originally constructed in FY1985 for $10,000 is replaced in FY2015 for $20,000. The historical value of $10,000 would be the component amount to remove. This amount was determined by reviewing the BD 725 for the original construction in 1985.
         (ii) An HVAC included in construction in FY1985 but included in the total cost of the building is replaced in FY2015 for $20,000 and historical cost information for the HVAC is not readily available. Using dollar value tables, the replacement cost of $20,000 would be discounted to its value in FY1985 dollars and the discounted value would be the component amount to remove. For example, using the dollar value table in the introduction

section (#12 - Links to References), key in the replacement year as 2015, enter the replacement cost as $20,000.00, and the initial acquisition year as 1985 and then click "calculate". The results provide that $20,000 in 2015 would cost $9,095.56 in 1985. You would then need to evaluate the results to determine if the value of $9,095.56 is reasonable considering that it is now 30 years since the initial acquisition. (NOTE- while we have provided a web site link to a dollar value table as an example, we have not tested it nor do we provide reliance on its accuracy. Prior to using this web site or others providing for dollar value tables, management should evaluate the web site information and determine whether it is reasonably comfortable with the values being provided.)

(3) Removal costs associated with the renovation project should be expensed. The remaining cost of adding the renovation would be the cost of the new asset.

l) Non-Capital or Equipment Costs Included in Building Costs: The *Capital Assets Group* should evaluate all the costs included in the capitalized value of a building for appropriateness, including the potential that equipment purchases associated with the construction or renovation of a building may not have been removed. Costs associated with furniture or other equipment not affixed to the building should be removed from the capitalized value of the building and reassessed as a potential equipment asset. Universities should have a policy to identify and remove non-capital items or equipment capital items included in a building's capitalized cost.

i) Costs of Modular Work Stations: Modular work stations or cubical office installations are generally not capitalized due to: (1) they are not considered affixed to the building and therefore not considered part of the building but equipment, (2) each item in the installation is considered a single piece of equipment due to the ability to interchange or reconfigure the installation, and (3) the unlikelihood that the value of an item including a prorate share of the labor cost of installation would equal or exceed the capitalization threshold. However, due to the high value of these installations and the fact that they are not typically used as interchangeable units but are stationary and do not change, universities may capitalize costs for modular workstations or cubical office installations. The university should disclose how modular workstations and cubical office installations are handled for capitalization purposes in their capital asset policies and procedures.

m) Capitalizing Interest paid During Construction Period: Not applicable to construction periods after June 30, 2019.

n) Componentization of a Buildings Costs: When a building is capitalized, the university may choose to capitalize the entire building as one asset or capitalize different components of the building as separate assets. Components of a building that will be replaced before the life of the building is over can be capitalized as a separate asset. These components are assigned different tag numbers and identified as separate assets on the *Capital Assets Management System* and tracked to the building. The different components of a building can be depreciated on different schedules to reflect their useful life. When the component is replaced, its value is easily determinable, and the old book value and accumulated depreciation removed from the *Capital Assets Management System*.

i) Examples of components of buildings:
   (1) Building Shell: (foundation, structure, exterior walls, doors and windows, interior and exterior stairs, interior finish, etc.)
   (2) Service Systems:
      (a) Roofing and Roof Coverings
      (b) Flooring and Floor Coverings
      (c) Plumbing Systems
      (d) Electrical and Lighting Systems
      (e) Fire Safety and Fire Protection Systems
      (f) Elevator Systems
      (g) Heating, Ventilation and Cooling Systems
      (h) Telecommunication and Data Infrastructure Systems
      (i) Security Systems
   (3) Fixed Equipment: (sterilizers, casework, fume hoods, cold rooms, etc.)

ii) Campuses may use the componentization method by:
   (1) For new construction, obtain a breakdown of the cost for construction from the contracts, the Final Report required by the State Construction Office, or by communicating with the university facilities construction oversight office or the construction contractor or architect responsible for the project
   (2) For existing buildings: use the same procedures for new buildings by looking at archived documents and determining the costs of the components, and then make prospective adjustments. Prospective adjustments may include (1) determining the percentage of cost for each component to the total building costs to determine the component ratio, (2) determining the remaining cost not depreciated and applying the component ratio to determine the remaining component cost, and (3) moving the remaining component cost to a new asset number and begin depreciation using the component depreciation rate. When using this method, the new asset numbers should be tracked to the existing asset number to be able to account for the total building cost.
   (3) Before initiating or completing a change to the componentization method, the *Capital Assets Group* must consult with the Office of Contracts and Grants to ensure that the change can be made and that any necessary approval from or disclosure to a federal agency has been made,
   (4) If changing methods of depreciation by changing to componentization, the financial reporting office should discuss the change with the auditors to determine if disclosure of the change is required by GASB 62 (Codification Section 2250.101,.121-.152).

o) <u>Capitalization of Buildings Prior to its Completion:</u> Occasionally, buildings may be occupied and capitalized prior to the total completion of construction or prior to the final billable work is finished. In these cases, work completed after the date the building is capitalized should be capitalized as well. Depending on the timing of the work completed, the additional cost would either be added to the original building, if completed in the same reporting period, or to a new asset record and tracked to the original building, if in a different reporting period.

p) Capitalization of Energy Conservation Projects: For energy conservation contracts that provide for improvements to the energy conservation of campus facilities, management should evaluate the project to determine whether the improvements planned are considered significant and related to new infrastructure or a modification to existing infrastructure or building assets. If the improvement meets the definition for an increase in future service potential of an asset or is a new capital asset, the cost of the project should be considered construction in process and capitalized once the project is complete and accepted for occupation and/or use.

i) The infrastructure and building costs should be separated and capitalized separately. Generally, Infrastructure costs would be capitalized as a new CAMS asset record and depreciated based on the class life established by the university. In addition, building costs would also be capitalized, and if more than one building is involved in the campus project, the associated cost should be allocated to the actual buildings being improved. This may be done by consulting the project manager or other responsible individual that is knowledgeable of the project, the associated costs and related buildings. The cost of improvements that are capitalized as buildings should be added to CAMS with new asset item numbers and tracked to the original building being improved. The new building asset records should be depreciated based on the associated class live(s) established by the university for the type of addition / component added to the building.

ii) For energy conservation contracts for which difficulty exists in the allocation of cost to specific buildings and/or in the distribution of cost between expendable and capitalizable items, the campus should determine the predominant cost areas of the contract. If the predominance is for replacement of light bulbs, then no capitalization would be necessary. If the predominance is for replacement of items that are a part of the building, then all would be capitalized. The allocation of the cost may be made to the predominant buildings being improved based on percentages provided by the university engineers. In applying this exception, the difficulties that exist should be documented and approved in writing by the Controller.

iii) For energy conservation contracts that are not material to the financial statements and for which a long-term liability is associated with the purchase of the long-lived assets, the campuses may record the entire amount of the loan as capitalizable to a single capital asset for the specific energy conservation project and depreciate the amount over the life of the loan.

(1) When using this option, materiality may be based on the discussion and amounts provided in the “UNC Business Process Procedural Guidance for Year End Planning and Procedures for Financial Reporting”. For quantitative purposes, the amounts computed for “performance materiality” may be used. For qualitative purposes, considerations should be made regarding the impact on using this option on buildings having the risk of fully depreciated values. The campuses should consult with their Audit Supervisor if they have concerns in this area.

(2) Energy conservation assets acquired through long-term debt for which: (a) the entire amount of the loan was capitalized as a single asset for multiple buildings, (b) the cost of the original building component parts were not removed, (c) the

energy conservation improvement project costs were considered immaterial, and (d) the fully depreciated amounts do not result in a building being fully depreciated, campuses may remove the fully depreciated energy conservation asset and accumulated depreciation when the loan is paid off.

5) Maintaining Building Asset Information in the Capital Asset Management System:
After the building has been accepted by the State Construction Office, the building is considered complete and ready for service, and it should be entered into the *Capital Assets Management System* based on the Certificate of Occupancy or in service date, whichever is later. The *Capital Assets Group* records information for each building in the *Capital Assets Management System*. The information maintained is a management decision but may include the following.
   a) Identifying Information
      i) CAMS / TAG / Identification Number
      ii) Description (Facilities / Construction Reference)
      iii) Building ID Code (Facilities / Construction Reference)
      iv) Budget Code
      v) Fund Code
   b) Fund Ownership
   c) Location (Facilities / Construction Reference)
   d) Date of State Approval (Certificate of Occupancy)
   e) Date Placed in Service
   f) Class Code
   g) Component Code
   h) Useful Life
   i) Cost
   j) Accumulated Depreciation

See Appendix – Buildings Templates for an Example of Information to Record in a CAMS System (7.c)

6) Accounting for Buildings Held for Investment Purposes:
Building Assets that are for investment purposes follow the same rules as capital equipment assets. (See "Initiation / Acquisition – Equipment" section 7)

Process III – Depreciation

A – Equipment

1) Establishing Rules / Guidelines for Equipment Depreciation Purposes:
The University Controller or other appropriate financial officer should establish the accounting policy / guidelines for determining capital asset thresholds, useful lives / depreciation rates, related accounting conventions, and procedures for review of fully depreciated assets. The policies / guidelines provided by the Office of State Controller and

the appropriate OMB Guidance (OMB Uniform Guidance) should be used when making these decisions.

2) Utilizing the Straight-Line Method of Depreciation:
   a) Generally, universities use the straight-line method of depreciation with an assumed salvage value of zero. The straight-line method recognizes the cost of equipment equally over the period of time the equipment will render services.
   b) When capital assets are acquired during the fiscal year, depreciation should be computed using the half-year convention or on the basis of the nearest full month.
   c) For equipment, the units of output method of depreciation may be used when the service life of the asset is affected primarily by the amount the asset is used.

3) Determining the Useful Life of Equipment:
   Useful life is an estimate of a reasonable amount of time each class of equipment will be used or in usable condition. Useful life is an important factor in the depreciation calculation.
   a) The Capital Asset Officer, University Controller, or other appropriate financial official should establish / authorize the asset classes or sub-classes to be used and their associated useful lives.
      i) Assets that fall within certain classes should be depreciated within the ranges and methods established by the Office of State Controller.

      See Appendix – Equipment Templates and Examples for Reference to OSC Depreciation Policy (3.a)

      ii) Useful life may be determined by using industry data, historical data, and / or other relevant research data (such as a survey of equipment users). The method(s) and procedures used should be documented and maintained to support the value established / authorized.
         (1) When using industry data, the university may consider information available from the North Carolina System schools and the university's designated Peer Institution schools. The values identified based on this analysis can assist the university in performing a risk assessment to determine the appropriateness of its depreciation policies in comparison with the other system schools and its peers.
            (a) An industry comparison by university tier group with evaluation of risk relative to the university's depreciation policy is provided as an attachment to the procedural guidance for Year End Planning and Procedures for Financial Reporting. The university should use this analysis for the purpose of evaluating risk. If the analysis shows that the university risk is greater than low, an explanation should be provided and, if necessary, the university should perform additional procedures as provided in these standards and/or follow the procedural guidance for resolution.
         (2) When using historical data, the university may consider information available from (a) a review of equipment sold / disposed of and the associated effect on accumulated depreciation, and / or (b) a review of equipment still in good

condition and being used that is fully depreciated or close to being fully depreciated.

(3) A cost benefit analysis should be used when determining procedures to perform in the historical analysis. Due to the expense, procedures should be limited to addressing the areas with highest risk and using the most efficient means.

iii) Commodity codes may be used, but not required, in determining sub-class depreciation rates.

See Appendix-Equipment Templates and Examples for Example of Commodity Codes (3.b)

iv) The authorized useful lives for each asset class should be recorded in and used by the *Capital Assets Management System* for depreciation purposes.

b) Salvage value is not recommended by the OSC. If using salvage value, this should be noted in the university's capital asset policies and procedures.

4) Evaluating and Adjusting Established Depreciation Rates Over Time:

To ensure that the depreciation rates established by management have been effective over time, the *Capital Assets Group* should perform procedures during the interim period, or as determined by management, to determine the effectiveness of depreciation rates established and their effect on the university's financial statements.

a) Evaluating Depreciation Rates Over Time: Due to reliance on state funds, it is likely that equipment may be utilized longer than originally intended making the original determination of useful life difficult and subject to elevated risk over time. Depreciation rates established for equipment that result in net book values that over time become close to or fully depreciated and remain in good condition should be evaluated as to their effect on the financial statements and the need for prospective adjustment.

b) Reviewing Industry Data: In performing the evaluation, the *Capital Assets Group* should review industry and / or historical data (see discussion on using industry and / or historical data in 3aii above) to assess risk related to depreciation policies and fully depreciated assets in comparison to industry data at the financial statement level. The *Capital Assets Group* should document its methods and procedures in evaluating the effectiveness of depreciation rates over time and/or assessing the risk of depreciation misstatements including the use of industry data, the known impact of fully depreciated equipment, and other procedures deemed necessary to understand the effect of depreciation policies on the university's financial statements.

c) Surveying, Discussing and Spot-Checking Procedures: In addition, if considered necessary, efficient, and effective, research data may be obtained by survey / discussions / spot checks on equipment that is approaching or is fully depreciated. The *Capital Assets Group* may seek and obtain input from the persons having custody of the fully depreciated assets or others in the department who may have first-hand knowledge of the use and condition of the fully depreciated equipment.

d) Removing Sold or Disposed of Assets: Fully depreciated equipment that has been sold or disposed of should be removed from the *Capital Assets Management System* and the financial statements.

e) Assets Sent to Surplus, No Longer in Use, or in Useable Condition: Fully depreciated equipment that has been sent to surplus or is no longer used or in useable condition may remain on the *Capital Assets Management System* until sold or disposed of by surplus property. If material to the financial statements, these items should be removed from the financial statements.

f) Material and Missing Assets: Fully depreciated equipment that is missing may remain on the *Capital Assets Management System* until it is determined missing for two inventory cycles. If material to the financial statements, these items should be removed from the financial statements.

g) Assets Not Being Used for Operational Purposes: Fully depreciated equipment that is no longer being used for operational purposes but is being used for exhibit or historical collection purposes may remain on the *Capital Assets Management System* until sold or disposed of by surplus property. If material to the financial statements, these items should either be moved to assets held for art / collection purposes or removed from the financial statements.

h) Assets in Poor Condition, Obsolete or Damaged: Fully depreciated equipment that is in poor condition, obsolete, or damaged may remain on the *Capital Assets Management System* until sold or disposed of by surplus property. Equipment in poor condition, obsolete, or damaged should not be considered for extension of its useful life unless repaired or reconditioned (see definition of poor condition in the introduction section under definition of condition code). These assets may be removed from the financial statements when sold, disposed of, no longer used or in usable condition, or determined to have impairments in accordance with GASB No. 42 (for more on impairments, see Record Maintenance – Equipment, section 4).

i) Prospective Accounting Treatment for Errors: Errors identified in the establishment of depreciation rates for equipment may occur and, if material to the financial statements, should be prospectively adjusted. Prospective adjustments may include:
   i) Revising the depreciation rates for new equipment.
   ii) Reducing the existing equipment asset record(s) by the amount of depreciation remaining and establishing a new record(s), linked to the original record, with the remaining value and the revised depreciation rate.
   iii) Modifying the existing equipment record(s) to reflect the revised depreciation rate.
   iv) When making a change in estimate and as required by GASB 62 (Codification Section2250.101,.126-.152), the financial reporting office should determine whether the change is significant and require disclosure in the notes to the financial statements. Management may consult with the auditors to determine if disclosure of the change in estimate is required.

j) Restatement Accounting Treatment for Errors: Prior period adjustments related to errors in an estimate are not permitted. However, the correction of an accounting error that is material to the financial statements should be considered a prior period adjustment. Management may consult with the auditors to determine if a prior period adjustment is required. Prior period adjustments generally should not be made for an accounting error unless material to the financial statements and discussed with the auditor.

i) When making a correction of an accounting error and as required by GASB 62 (Codification Section 2250.121-152), the financial reporting office should determine whether the correction is significant and require disclosure in the notes to the financial statements. Management may consult with the auditors to determine if disclosure of the correction of an accounting error is required.

ii) Examples of accounting errors that could be material to the financial statements and require consideration of a prior period correction include:
   (1) Capital repairs that should have been capitalized but were expensed.
   (2) The failure of management to monitor and evaluate on a timely basis the lives of capital assets as compared to the deprecation rates established.
   (3) Errors or omissions in recording capital asset items.
   (4) Errors in the recording or calculating depreciation (other than an error in estimate – for example used a depreciation rate that was not authorized, or the depreciation schedule was not totaled correctly).
   (5) The failure to adjust or correct capital assets as a result of periodic inspections and physical inventories.
   (6) The failure to adjust or correct capital assets that are considered impaired.

5) Amortization of Lease Assets:

Lease assets recorded as intangible capital assets should be amortized in a systematic and rational manner as discussed in III.A.2, over the shorter of the lease term or the useful life of the underlying asset. If the lease contains a purchase option, that the lessee has determined is reasonably certain of being exercised, the lease asset should be amortized over the useful life of the underlying asset.

a) The amortization of lease assets should be recorded as amortization expense and, in accordance with OSC policy, should be combined with depreciation expense for financial statement reporting purposes.

B - Buildings

1) Establishing Accounting Rules / Guidelines for Building Depreciation Purposes:

The University Controller or other appropriate financial officer should establish the accounting policy / guidelines for determining building thresholds, useful lives / depreciation rates, related accounting conventions, and procedures for review of fully depreciated assets. The policies / guidelines provided by the Office of State Controller should be used when making these decisions.

See Appendix – Buildings Templates and Examples for OSC Depreciation Policies (3.a)

2) Utilizing the Straight-Line Method of Depreciation:

The straight-line method of depreciation used for depreciating buildings is the same as in the equipment standards (see “Depreciation – Equipment”, section 2a).

a) When buildings are certified for occupancy and placed into service during the fiscal year, depreciation should be computed using the half-year convention or on the basis of the nearest full month.

3) Determining the Useful Life of Buildings:

The useful life of a building is an estimate of the number of years the building will be used or in usable condition.

a) The *Capital Assets Group* should establish / authorize the asset classes or sub-classes to be used and their associated useful lives.
   i) Assets that fall within certain classes should be depreciated within the ranges and methods established by the Office of the State Controller.
   ii) Useful life may be determined by using industry data, historical data, and / or other relevant research data. The method(s) and procedures used should be documented and maintained to support the value established / authorized.
      (1) When using industry data, the university may consider information available from the North Carolina system schools and / or the university's designated Peer Institution schools. The values identified based on this analysis can assist the university in performing a risk assessment to determine the appropriateness of its depreciation policies in comparison with the other system schools and its peers.
      (2) When using historical data, the university may consider information available from (a) a review of buildings disposed of and the associated effect on accumulated depreciation and / or (b) a review of buildings still in use that are fully depreciated or close to being fully depreciated.
      (3) A cost benefit analysis should be used when determining procedures to perform in the historical analysis. Due to the expense, procedures should be limited to addressing the areas with the highest risk and using the most efficient means.

b) The authorized useful lives for each asset class should be recorded in and used by the *Capital Assets Management System* for depreciation purposes.

4) Evaluating and Adjusting Established Depreciation Rates Over Time:

To ensure the depreciation rates established by management have been effective over time, the *Capital Assets Group* should perform procedures annually, or as determined by management, to determine the effectiveness of depreciation rates established and their effect on the university's financial statements.

a) Evaluating Depreciation Rates Over Time: Due to the reliance on state funds, there is some risk that buildings may not be maintained properly and that appropriate repairs necessary to keep the property in good condition may not be made timely. Deferring necessary maintenance, repairs, or renovation makes the original determination of useful life difficult and subject to elevated risk over time. Without proper maintenance over time, the building may not last as long as originally intended. If the building is maintained and repaired on a timely basis, then the useful life of buildings could be longer. Depreciation rates established for buildings that result in net book values that over time become close to fully depreciated and remain in good condition should be evaluated.

b) Effect of Not Capitalizing Prior Improvements: The evaluation should consider the effect of not capitalizing (1) extraordinary repairs or replacements, renovations or rehabilitations that meet the capitalization criteria and / or (2) repairs or replacements

made at the end of or after the buildings original estimated useful life that significantly increases the actual useful life of the building. The evaluation should determine if these conditions indicate a need for correction of a known accounting error or a prospective adjustment for changing the useful life estimate.

c) Reviewing Industry Data: In performing the evaluation, the *Capital Assets Group* should review related industry data to assess the risk of misstatement related to the university's depreciation policy. See the equipment section for details as to performing the industry comparison and risk assessment.

d) Surveying, Discussing and Spot-Checking Procedures: In addition, if considered necessary, efficient and effective research data may be obtained by survey, discussions, or spot checks on buildings that are approaching or are fully depreciated or buildings that are not being maintained and repaired appropriately. The *Capital Assets Group* may seek and obtain input from the persons who may have first-hand knowledge of the use and condition of the buildings and fully depreciated buildings.

e) Removing Sold or Demolished Assets: Fully depreciated buildings that have been sold or demolished should be removed from the *Capital Assets Management System* and the financial statements.

f) Assets No Longer Being Used or in Usable Condition: Fully depreciated buildings that are no longer planned to be used or in useable condition may remain on the *Capital Assets Management System* until sold or demolished. When the *Capital Assets Group* is notified of the sale or disposal of a building, they should remove the building from the *Capital Assets Management System* and report the appropriate gain / loss from the sale or disposal at year-end. If material to the financial statements, the fully depreciated buildings that are no longer planned to be used or in usable condition should be removed from the financial statements.

g) Considering Recorded Renovations and Improvements: Buildings are not considered to be fully depreciated if renovations or improvements have been made and capitalized as separate assets and the combined amounts (Initial cost-plus renovations / improvements) are not fully depreciated.

h) Considering Componentization: When using component accounting, the component's depreciation rate varies dependent on the component's useful life. When reviewing for effective depreciation rates and fully depreciated buildings, the building as a whole should be evaluated. However, components nearing or fully depreciated should be evaluated as well for prospective adjustment if material to the financial statements.

See Appendix – Buildings Templates and Examples for Example of Component Depreciation Rates (8.a)

i) Determining Accounting Treatment for Errors: Standards for errors identified in the establishment of depreciation rates for buildings, prospective adjustments, prior period adjustments, and a correction of an accounting error are the same as the equipment standards (see Depreciation – Equipment, section 4.i through 4.j).

5) Amortization of Lease Assets:
Amortization of building lease assets is the same as amortization of equipment lease assets. See III.A.5

Process IV – Record Maintenance

A - Equipment

1) Taking Annual Physical Inventories of Capital Equipment Assets:
A physical inventory of equipment is taken to verify that equipment recorded in the *Capital Assets Management System* can be physically located and is recorded properly as to location and existence. The physical inventory is important to maintain accurate records and to identify equipment that is misplaced, lost, or damaged.
   a) Equipment Inventory List: Annually, the *Capital Assets Group* provides departments with a list of capital equipment that the department is assigned custody of. This list should include the equipment's description, tag number, and other identifying information.
   See Appendix – Equipment Templates and Examples for Example of an Annual Inventory Checklist / Guidelines (4.a)
      i) The department should physically locate each piece of equipment on the list and update any information that needs to be changed such as condition or location of the equipment.
      ii) Equipment held by a department having a university tag number but not on the department's inventory list should be reported back to the *Capital Assets Group* as unlisted equipment.
      iii) All changes should be made directly on the inventory list or to the automated inventory system. The inventory listing or electronic report should be signed by the department head or designee. If the *Capital Assets Group* staff is performing the physical inventory using bar code scanners, no signature is needed.
      iv) If the *Capital Assets Group* staff is not performing the physical inventory using bar code scanners, and the process is not electronic, a copy of the listing should be maintained by the department and the signed completed inventory list should be returned to the *Capital Assets Group*.
   b) Changes to the Equipment Inventory List: The *Capital Assets Group* compares the physical inventory lists with the inventory records in the *Capital Assets Management System* and updates the system with the authorized changes. If this is done electronically with an automated system, the *Capital Assets Group* may use exception reports for the identification of differences.
   c) Automated Processes: If the inventory process is automated and the records are maintained electronically, paper documents are not required where information is available in the system.
   d) Electronic Bar Code System: If the university has an electronic bar code scanning system, then the inventory process could involve scanning the tag on each piece of equipment to verify its location and existence. This process can replace departments completing an inventory list / roster and returning this to the *Capital Assets Group*.

e) Spot Check Process: If the *Capital Assets Group* (CAG) does not actually perform the physical inventory count, they should perform spot checks of the returned inventory lists to verify the accuracy of the department's inventory procedures. Spot checks should be performed by the primary CAG office or other independent group (i.e. another central office, the internal auditor or a business service center above the department level) using random, risk based, or a combination of random and risk based selection procedures. The extent of spot checks should be based on the size of the campus as a whole and risk factors that indicate performance issues at the department level. The determination of the extent of spot checks, test procedures used and results of the spot checks should be documented and maintained for review purposes.

See Appendix – Equipment Templates and Examples for Example of a Spot Checklist and Guidelines (4.b)

If the spot checks indicate missing assets not reported by the departments, the CAG should discuss this issue with the University Controller and follow the same procedures for reporting missing assets in the annual inventory (reporting to the Department Heads/Deans/Vice Chancellors).

At a minimum, spot checks should be performed when the following risk factors exist:

i) A history of related departmental reporting issues or audit findings exist
ii) Known issues exist with the reporting by the department or assigned individuals to the primary CAG office
iii) Known issues exist with related systems being used by the department or assigned individuals

f) Significant Change Events: For significant change events such as a change in a department head, the moving of a department or function from one building to another, the moving of scientific equipment from one location to an offsite location, or the transfer of significant assets from a third party, consideration should be made to perform interim physical inventories at the time of the change event. This is a management decision and should be based on risk factors and the likelihood of assets becoming misplaced, not transferred, or stolen. The guidance and procedures for interim physical inventories should be included in the university's capital asset policies and procedures.

2) Evaluating and Reporting Missing Equipment:

Departments are responsible for safeguarding their assets and documenting the procedures in place to do so.

a) If any equipment is reported missing during the physical inventory, the *Capital Assets Group* should search the *Capital Assets Management System* to make sure the asset is not listed in another department inventory list.
b) Equipment that is not located in the physical inventory process is considered missing and must be resolved.
   i) A missing equipment report should be produced and sent to the department head for signature.

See Appendix – Equipment Templates and Examples for Example of Missing Letter to the Department Head (4.c)

ii) All missing equipment should be further investigated by an independent person within the department, or by the CAG or the internal auditor if an independent person does not exist at the department level. Those that appear suspicious in nature or likely a theft should be reported by the department to campus police.

iii) Equipment subsequently located should be removed from the missing equipment report.

iv) If after the report to the department head equipment remains missing (within 30 days after notification to the department head or up to 90 days as authorized by the controller or other responsible officer), an updated missing equipment report should be addressed and sent to the appropriate Dean and Vice Chancellor.

See Appendix – Equipment Templates and Examples for Example of Missing Letter to the Dean / Vice Chancellor (4.c1)

(1) For institutions that do department inventories on a staggered basis throughout the year, the timing of the report to the appropriate Dean and Vice Chancellor may be done on a basis approved by the controller or other responsible officer.

c) Missing equipment is marked in the *Capital Assets Management System* as missing and kept in the system based on time frames established in the capital asset policies and procedures. In accordance with state policy, equipment that is missing for one year must be retired and removed from the institution's capital assets balances.

i) If the asset is not located in the authorized time frame, the asset should be removed from the *Capital Assets Management System*. Any associated depreciation is also removed from the system.

ii) If material to the financial statements, the missing assets should be removed from the financial statements.

d) If missing property (capital or non-capital equipment) is determined to be stolen, the department must immediately contact the appropriate university oversight office that handles fraud / theft investigations (e.g., Campus Police / Internal Audit Office). If the capital or non-capital equipment contains sensitive data such as personal identifying information, the department management must also contact the appropriate oversight offices over loss of sensitive data (e.g., Legal Office / IT Office).

3) Reviewing Maintenance Expenses for Misclassified Capital Equipment Assets:

Maintenance expenses are incurred to keep assets in normal operating condition and to help maintain the original use of the asset. Maintenance expenses do not extend the life of the asset beyond the expected useful life at acquisition or increase the future service potential of the asset. Maintenance costs are incurred to keep the asset operational throughout its useful life. These costs should not be capitalized because they do not extend the useful life of the asset; maintenance costs should be expensed. However, the University Controller's Office, *Capital Assets Group*, or other responsible office should have procedures in place to review supply, repairs and maintenance accounts for misclassifications of capital equipment recorded as an expense. (See the Initiation / Acquisitions standards)

4) Determining and Adjusting for Impairments to Capital Equipment Assets:

Impairment of capital equipment should be assessed by the university to comply with OSC guidelines and GASB No. 42 standards.

a) Management should determine the materiality threshold for the determination and evaluation of capital asset impairments.
b) Capital equipment is considered to be impaired if its service utility has declined significantly and unexpectedly. Common indicators of impairment are:
   i) Evidence of physical damage (e.g., equipment damaged by fire or natural disaster)
   ii) Changes in legal or environmental factors (e.g., equipment that does not meet certain requirements)
   iii) Technological change or obsolescence (e.g., research equipment that may be outdated and newer equipment provides better service)
   iv) Changes in manner or duration of use (e.g., machinery is no longer used prior to the end of its useful life due to safety reasons)
c) The University's Controller's Office, or other office responsible for the annual review and evaluation of capital asset impairments, should use a standard template questionnaire to obtain relevant data from various oversight offices.

See Appendix – Equipment Templates and Examples for Example of a Questionnaire for Assessing Capital Asset Impairments (4.d)

   i) The oversight offices may include:
      (1) University Facilities
      (2) Insurance and Risk Management
      (3) Environmental Health and Safety
      (4) Research Administration
      (5) Others with knowledge of impairments
d) For OSC ACFR package reporting purposes, the year-end OSC ACFR package should be completed including the worksheet to list the assets meeting the reporting threshold that have been identified as impaired.
e) For financial statement reporting purposes, the year-end OSC ACFR package should be used to assist in making the financial statement adjustments and disclosures.
f) For impairments identified as material, appropriate adjustments should be made to the *Capital Assets Management System*.

5) Reporting Location Changes of Capital Equipment Assets:

It is important to report all changes in location for university tagged equipment to the *Capital Assets Group* to maintain accurate records. To change an asset's location in the university, the department responsible for the equipment must file a change of location form with the *Capital Assets Group* or, if authorized, record the change in location on the system. This form should include the equipment's current location, tagging number, and new location. Based on the completion of the form, and management approval, the *Capital Assets Group* changes the location of the equipment in the *Capital Assets Management System*.

See Appendix – Equipment Templates and Examples for Example of Change in Location Form (4.e)

a) If the university uses an automated process for change in location and electronic records are maintained, additional paper form documentation and notification is not required.

6) Authorizing Capital and Non-Capital Equipment to be taken off campus:

Because equipment purchased by the university is to further its educational mission and office space is made available to its faculty and staff, equipment should generally remain on campus. However, when justified, equipment including items (1) capitalized or (2) not capitalized that are high theft items such as laptop computers over a certain amount, are taken off campus, including equipment assigned to employees having flexible working arrangements, the off-campus use of equipment must be approved by the department head and/ or another appropriate official.

a) If approved, off-campus / home use of equipment allows university employees to take capital equipment home or on trips for use on university business. If the equipment is removed from campus for an amount of time greater than 60 days, or less if required by the capital assets policies and procedures, the employee responsible for the equipment must gain documented approval from the department head that owns the equipment. If approved, a form must be completed by the employee borrowing the equipment to authorize the removal of equipment. This form should be maintained in the department and a copy should be given to the employee using the equipment. The department should notify the *Capital Assets Group* to update the location in the *Capital Assets Management System* to "off campus / home use". When the equipment is returned to the university, the department should notify the *Capital Assets Group* to update the location and condition of the equipment.

See Appendix – Equipment Templates and Examples for Example of Approval of Off-Campus / Home Use Form (4.f)

b) If the university uses an automated process for change in location of capital assets due to off-campus / home use, the *Capital Assets Group* notification is not required unless provided for in the capital asset policies and procedures.

c) Annually, the off campus / home use of equipment form should be reviewed, and approval renewed if still valid. This renewal must reaffirm the justification for the item being located off campus and that the employee and department head continue to acknowledge his or her responsibility for the item and its use.

i) The employee and department do not need to obtain a new approval of the off campus/home use form if the authorized period in the original form is current.

ii) The employee responsible for the equipment must certify on an annual basis the existence, condition, and location of the equipment to the Department Head, and if requested provide a current photograph of the equipment.

iii) For any significant change in the location of the equipment while off campus, the department should notify the *Capital Asset Group* or update the *Capital Asset Management System*.

d) Equipment that is moved to an off-campus business location (e.g., equipment moved to a research lab at another university that is a sub-contractor or related to an international grant) must be approved by the department head via an Offsite Storage Form and

reported to the *Capital Assets Group* to change location in the *Capital Assets Management System*. (Note - if the institution uses the Off-Campus/Home Use Equipment Form for this purpose, the department should notify the Capital Asset Group to change the location of the asset in the *Capital Asset Management System*.)

See Appendix – Equipment Templates and Examples for Example of an Approval of Offsite Storage Form (4.g)

i) The standards in section 6.c regarding annual approvals annual inventory certifications, and significant change in location of the asset apply to the Offsite Storage Form as well as the Off-Campus/Home Use Equipment Form.

7) Reconciling the Capital Asset Management System:

Reconciliation is an important step in verifying all transactions are recorded properly.

a) If the capital assets are posted to the general ledger during the month, a reconciliation of the *Capital Assets Management System* to the general ledger should be performed. Generally, this reconciliation should be performed on a monthly basis; however, if the amount or number of asset changes to the *Capital Assets Management System* is considered insignificant, a different frequency for the reconciliation may be used if (1) approved by the University Controller or other responsible officer and (2) documented in the *Capital Assets Group's* policy and procedures manual. The reconciliation should be supervised and action taken, as appropriate, to ensure the accuracy of the general ledger. This reconciliation verifies that all changes were properly made in the system and are reflected in the financial records. Documentation of the reconciliation should be maintained in accordance with university record retention policies.

See Appendix – Equipment Template and Examples for Example of a Reconciliation of GL to CAMS (4.h)

b) After the physical inventory process and adjustments have been recorded as a result of the inventory, a reconciliation between the inventory records and the *Capital Assets Management System* should be made. In those cases where the system is automated or a bar code scanner is used, a report on exceptions (including items not located / scanned and deemed missing) may be used for this purpose.

c) After posting all of the year-end entries relating to capital assets to the general ledger, the year-end reconciliation of the *Capital Assets Management System* to the general ledger should be performed.

See Appendix – Equipment Template and Examples for Example of a Year-End OSC ACFR Reconciliation (4.i)

d) As part of the OSC ACFR package, a reconciliation of prior year to current year balances is required. This reconciliation should be performed by a knowledgeable staff member and reviewed by someone in the Financial Reporting Office.

8) Validating and Maintaining Documentation for Changes to the Capital Asset Management System:

It is the responsibility of the *Capital Assets Group* to verify that all adjustments, write-offs, and changes made to the *Capital Assets Management System* are appropriately approved.

All documentation related to these procedures should be maintained in the *Capital Assets Group* according to the capital asset policies and procedures and the university's record retention policies.

9) Making Necessary Adjustments to General Ledger Equipment Accounts for Financial Statement Reporting Purposes:

Additions / disposals of capital equipment must be analyzed and recorded to the general ledger prior to the close of the year.

a) This may involve several adjusting entries that may be automated or manual including:
   i) Reclassifying equipment recorded as expensed to a capital asset account
   ii) Adjusting for accrued equipment (accounts payable) and moving amount recorded as expensed to a capital asset account
   iii) Adjusting for equipment that is lost, missing, or sent to surplus
   iv) Adjusting, if material, for reported impairments
   v) Adjusting for disposals and recording gain / loss on disposals
   vi) Adjusting for capital gifts
   vii) Adjusting for purchases / transfers from component units
   viii) Recording depreciation and amortization
   ix) Recording lease contract financed purchases
   x) Recording lease intangible capital assets
b) The adjusting entries should be documented and properly supported and performed by a person knowledgeable of the year-end capital asset reporting process. The adjusting entries should be reviewed by someone in the Financial Reporting Office prior to the adjustments being made.

B - Buildings

1) Communicating and Confirming Buildings Placed in or Removed from Service with the Facilities Management Operations:

The *Capital Assets Group* should communicate with the university oversight office over facility operations maintenance and inspections and / or review the related facilities database to confirm that all buildings placed in service or removed from service are recorded in the *Capital Assets Management System.* The *Capital Assets Group* verifies that all buildings are properly recorded in the *Capital Assets Management System*. If the *Capital Assets Group* does not utilize this database, they must have other procedures in place, such as confirmation and/or interim meetings with the oversight office over buildings to verify that the status of university buildings has been captured in the CAMS accurately.

2) Communicating with and Validating the Existence Assertion for Buildings with the Appropriate Custody / Oversight Office:

Buildings are monitored for appropriate maintenance, existence, and condition by the office responsible for custody and oversight over building maintenance and repairs. This helps the *Capital Assets Group* verify that the buildings exist in good condition and are properly recorded and tracked in the *Capital Assets Management System*. The *Capital Assets Group*

should have procedures in place to communicate with the appropriate custody / oversight office over buildings or otherwise determine that the existence assertion required for financial reporting, related to the buildings, is accurate.

3) Reviewing the UNC Space Utilization Report:

University space in buildings is allocated by the appropriate oversight office to different departments. Space additions, deletions, and / or changes are communicated to the departments. Data is updated to accurately reflect the conditions assignment and usage of facilities owned or controlled by the university. This data is used internally and reported to the UNC System Office for use in publications and surveys concerning the university. The space utilization report may be utilized by the *Capital Assets Group* to confirm the existence and use of the university's buildings.

4) Determining and Adjusting for Impairments to Buildings Assets:

Impairment of buildings should be assessed by the university to comply with OSC guidelines and the GASB No. 42 standards.

a) Management should determine the materiality threshold for the evaluation of capital asset impairments.
b) Common indicators of building impairment are:
    i) Evidence of physical damage (e.g., a building facing costs associated with asbestos removal)
    ii) Changes in legal or environmental factors (e.g., underground storage tank or water treatment plant that does not meet new EPA requirements)
    iii) Technological change or obsolescence (e.g., an outdated utility or lighting system)
    iv) Changes in manner or duration of use (e.g., a former classroom now used for storage)
    v) Permanent construction stoppage (e.g., the halting of building construction due to lack of funding)
c) The *Capital Assets Group* should use a standard template questionnaire to obtain relevant data from various oversight offices.

See Appendix – Buildings Templates and Examples for an Example of a Questionnaire for Assessing Capital Asset Impairments (4.d)

    i) The oversight offices may include:
        (1) University Facilities
        (2) Insurance and Risk Management
        (3) Environmental Health and Safety
        (4) Research Administration
        (5) Others with knowledge of impairments
d) For OSC ACFR package reporting purposes, the year-end OSC ACFR should be completed including the worksheet to list the assets meeting the reporting threshold that have been identified as impaired.
e) For financial statement reporting purposes, the year-end OSC ACFR package should be used to assist in making the financial statement adjustments and disclosures.

f) For impairments identified as material, appropriate adjustments should be made to the *Capital Assets Management System*.

5) Reconciling the Capital Asset Management System:
The reconciliation standard for buildings is the same as for equipment (see the Equipment Record Maintenance standards).

6) Validating and Maintaining Documentation for Changes to the Capital Asset Management System:
The responsibility for verifying that all adjustments, write-offs, and changes to the *Capital Assets Management System* are properly approved is the same as for equipment (see the Equipment Record Maintenance standards).

7) Making Necessary Adjustments to General Ledger Building and CIP Accounts for Financial Statement Reporting Purposes:
Changes to Construction in Progress and buildings accounts must be analyzed and recorded to the general ledger prior to the accrual close of the year.
   a) This may involve several adjusting entries that may be automated or manual including:
      i) Reclassifying construction activities recorded to expense to the proper capital asset account for CI Funds
      ii) Reclassifying construction activities recorded to expense to the proper capital asset account for non-CI Funds
      iii) Reclassifying completed construction projects to depreciable asset accounts
      iv) Adjusting for accrued transactions including retainage and contracts payable and moving them to the proper asset account
      v) Adjusting for buildings that are demolished or those that have been sold and recording related gain / loss
      vi) Adjusting, if material, for reported impairments
      vii) Adjusting for capital gifts
      viii) Adjusting for purchases / transfers from component units
      ix) Recording depreciation and amortization
      x) Recording lease contract financed purchases
      xi) Recording lease intangible capital assets

   b) The adjusting entries should be documented and properly approved and performed by a person knowledgeable of the year-end capital assets reporting process. The adjusting entries should be reviewed by someone in the Financial Reporting Office prior to the adjustments being made.

Capital Asset Standards

Process V – Retirements / Disposals

A - Equipment

1) Initiating and Communicating the Disposal of Capital or Non-Capital Equipment:

When capital equipment is no longer needed, becomes obsolete or is no longer used or usable, the department responsible for the equipment should initiate the removal of the equipment.

a) The department should notify the appropriate Surplus Property Office, complete the appropriate Surplus Property Form, and arrange for the equipment to be moved for sale / disposal by that office.

See Appendix – Equipment Templates and Examples for Example of a Surplus Property Form (5.a)

b) The department should complete an Equipment Disposal Form and return this to the *Capital Assets Group.* The university's Surplus Property Form may be used for this purpose if authorized in the capital asset policies and procedures. As authorized by the department head, the *Capital Assets Group* either removes the identified equipment from the *Capital Assets Management System* or records information in the system to track the equipment for reporting purposes prior to the notification of the sale or disposal by the Surplus Property Office.

See Appendix – Equipment Templates and Examples for Example of an Equipment Disposal Form (5.b)

c) If the Equipment Disposal Form is not electronic, the department responsible for the equipment and the *Capital Assets Group* should maintain a copy of the Equipment Disposal Form.

2) Disposing of Capital or Non-Capital Equipment:

The appropriate Surplus Property Office determines the best way to dispose of the equipment. The most common options of disposal are selling the equipment to the public, relocating the equipment to another department, or scrapping the equipment.

a) If equipment held by a department is no longer being used and not intended to be used in the future, or repaired or reconditioned back to a usable state, it should be sent to surplus property management for disposal.

b) If the appropriate Surplus Property Office determines the equipment cannot be used by any other departments in the university, the equipment is made available for sale.

c) If the equipment is sold, any excess proceeds, after deducting the State Property Office's administrative fee, are returned to the university, and distributed in accordance with university policy.

d) Proceeds from surplus property sales of equipment originally purchased with state funds should be tracked and if amounts received exceed the budget amounts approved by OSBM, such amounts must be returned to the state.

e) If the asset is not sold during the state surplus sale, the equipment should be disposed of in accordance with appropriate Surplus Property Office guidelines.

f) If another department on campus can use the equipment, the equipment is relocated to the new department. A Transfer Form should be completed, signed by the department head or designee, and sent to the *Capital Assets Group* authorizing the change in location.

See Appendix – Equipment Templates and Examples for Example of an Equipment Transfer Form (5.c)

   i) Transfers of equipment between departments within the university may go through the Surplus Property Office, the *Capital Assets Group*, or be negotiated between the departments. In either case, a Transfer Form authorized by the department head or designee for transferring / receiving the equipment should be completed and sent to the *Capital Assets Group* for recording on the *Capital Assets Management System*.
   ii) The university may account for the transfer by either (1) changing the location code and updating the custodian information in the system for the transferred equipment or (2) removing the old tag and creating a new tag.

g) Equipment that has no use by the university or value for a surplus sale is scrapped. Scrapped equipment should be disposed of in accordance with the appropriate Surplus Property Office guidelines.

h) Old equipment may be traded to a vendor as a partial payment on new equipment. Prior to the trade in, the purchasing department and/or the appropriate surplus property office should be contacted to obtain the required approval for the trade in from the State Surplus Property Office. If approved, the department trading in the equipment must file a Disposal Form with the *Capital Assets Group* to notify the group of the removal of the old equipment from the university.

i) If a department returns capital equipment to a vendor that has already been tagged, the department should notify the *Capital Assets Group* via the Equipment Disposal Form to remove the old equipment from the *Capital Assets Management System*.

3) Complying with State Rules and Regulations over Disposition of Capital or NonCapital Equipment:

State owned equipment may not be sold, scrapped, donated, or otherwise disposed of outside of cannibalization by the department who has custody of the equipment without the approval of the appropriate Surplus Property Office. The following controls should be implemented to assist in limiting the possible risk of such an occurrence:

a) University-wide policies or guidelines outlining the proper equipment disposal procedures should be established and made available to the responsible employees.

b) Training should be provided by the *Capital Assets Group* or appropriate central office to the responsible employees regarding the required procedures for the sale and disposition of equipment.

c) Additional oversight action, such as additional training of responsible employees and / or spot checks by the *Capital Assets Group*, should be considered for those departments considered high risk.

4) Cannibalizing Capital Equipment:
When it is no longer economical to repair equipment and the equipment can be used to maintain similar equipment, the equipment can be cannibalized. Cannibalization is the process of taking parts from old useless equipment and using them to repair equipment that is still in use. The Equipment Disposal Form must be completed, signed by the department head or designee, and filed with the *Capital Assets Group* indicating that the equipment is being cannibalized.

5) Transferring Equipment to an Entity Outside of the Institution:
Transfers of equipment outside of the university to another university or state agency must be approved by the State Surplus Property Office.
   a) If the transfer is approved, the equipment is removed from the transferring university's *Capital Assets Management System* and a gain or loss is recorded for the difference between the purchase amount and the carrying value.
   b) If the transfer is received from a state agency or other organization within the State's reporting entity, the transfer of equipment should be recorded at the carrying value of the transferring agency or organization. The difference between the carrying value and the purchase price should be recorded as a capital subsidy (capital gifts or other expense). Any addition amount incurred for freight and installation should be added to the asset's value (see GASB #48 for more information on intra-agency transfers of property).

6) Disposing Capital Equipment Purchased with Federal Funds:
If the equipment to be sold, transferred, or disposed of was purchased with federal funds, the disposal of equipment must be made in accordance with the federal award requirements and the appropriate OMB Guidance (OMB Circular A-110 or Uniform Guidance). As deemed necessary, the *Capital Assets Group* should communicate with the Office of Contracts and Grants to determine the disposition rules for federal grant equipment and the necessary information for tracking purposes.
   a) When the university no longer needs equipment, it has title to that was purchased with federal funds and the equipment is classified as "exempt property" by the federal awarding agency, the university generally uses its normal disposition procedures through the appropriate Surplus Property Office.
   b) When the university no longer needs equipment, it has title to that was purchased with federal funds and the equipment is not classified as "exempt property" in the federal award, the university must disposition the equipment in accordance with the federal award and the appropriate OMB Guidance (OMB Circular A-110 or Uniform Guidance).
      i) For equipment with a current per unit fair value of $5,000 or more, the university may retain the equipment for other uses provided that compensation is made to the original federal awarding agency or its successor. The amount of compensation shall be computed by applying the percentage of federal participation in the cost of the original project or program to the current fair market value of the equipment.
      ii) If the university has no need for the equipment, the university shall request disposition instructions from the federal awarding agency.

c) For sponsored awards that provide for title to remain with the federal government, prior written approval must be received from the appropriate funding agency prior to trade, transfer or disposition of the federally owned equipment.
d) For 6b, and 6c above, the *Capital Assets Group* or University Contracts and Grants Office should maintain supporting documentation for the sale or disposal of related federal equipment including:
   i) Disposition date
   ii) Sale amount
   iii) Any communication with the federal awarding agency
   iv) The method in determining fair value of the equipment when sold

7) Recording Gains / Losses from Sale of Capital Assets:
When equipment is disposed of, the gain / loss, if any, should be recorded to the general ledger. This may be recorded at the time of the sale / disposal or at year-end. If the gain/loss is considered significant, it should be considered in the evaluation of equipment depreciation rates over time (see section III.A.4 "Equipment Depreciation" for evaluating depreciation rates over time).

B - Buildings

1) Identifying Buildings That Have Been or Need to be Retired and/or Adjusted Due to Material Impairments and Making Appropriate Adjustments to the Building Accounting System:
When buildings are no longer used or in usable condition due to factors that may include age, structural or building code defects, damage or other impairments or safety issues, or otherwise decommissioned, the university may decide to demolish the building.
   a) During the interim period and/or prior to the month of July, the *Capital Assets Group* should communicate with the office responsible for oversight of building maintenance or real estate matters (e.g., Facilities Department or Real Estate Office) to see if any buildings have been demolished, planned to be demolished, or have material impairments. If so, the *Capital Assets Group* should obtain notification from the appropriate office with the building asset's identifying information and the date the building was demolished or planned to be demolished or if impaired, the nature of the impairment and its impact on future utilization of the building (see "Record Maintenance – Buildings" for evaluation of impairments, section IV.B.4).
   b) Once authorization by the State for demolition is received by the appropriate office, and the demolition process started, the *Capital Assets Group* initiates removal of the identified building from the *Capital Assets Management System*. The original cost and accumulated depreciation should be removed, and the loss on disposal of capital assets recorded.
   c) The *Capital Assets Group* should retain supporting documentation received from the office that approved / confirmed the building demolition (e.g., notification from Facilities or NC Department of Administration).
   d) The *Capital Assets Group* should have policies to identify buildings that are no longer owned or in use by the university to verify that they are removed from the financial statements in a timely manner.

e) Accounting for the cost of a building demolition may be different depending on the purpose of the demolition:
   i) When land is acquired with existing buildings or structures that must be removed to prepare the land for its intend use and purpose, the cost of demolition is added to the value of the land as nondepreciable (see "Initiation / Acquisition – Equipment" section II.B.4c).
   ii) When a building or structure that is not part of a land acquisition is being replaced, the related cost of demolition and excavation to replace the asset is accounted for as part of the construction cost and depreciated over the useful life of the new asset.
   iii) When a building or structure must be removed for the land to be usable for purposes other than ii, the cost of demolition is added to the value of the land as nondepreciable.
   iv) When a building or structure is removed that is not associated with the use of the land for a new building or structure and does not significantly increase the value or use of the land, the cost of demolition may be expensed.
   v) When the building is part of an investment asset, the demolition cost is accounted for as an increase to the cost of the investment asset.

2) Accounting for Retirements When the Building's Value is Componentized:
If a building uses component accounting, a component's book value and accumulated depreciation is removed when a replacement component is installed.

3) Accounting for Extraordinary Repairs and Replacement of Building Parts / Components:
If a building requires an extraordinary repair or replacement, renovation, or re-habilitation, replaced building parts / components book value and accumulated depreciation should be removed (see "Initiation / Acquisition" – Buildings section 4.k for more details).

4) Accounting for Buildings Sold:
If a building is sold by the university, the closing statement on the sale serves as the basis of accounting. The closing statement should identify the date, parties involved, and purchase price of the transaction.
   a) If the university receives cash in return, the amount of cash received is compared to the asset's net book value (i.e., cost minus accumulated depreciation) at the time of the sale. If the building is sold for more than its net book value, a gain on the sale should be recorded. If the building is sold for less than its net book value, then a loss on the sale should be recorded.

5) Recording Gains / Losses from Sale of Capital Assets:
When a building is disposed of, the gain / loss, if any, should be recorded to the general ledger. This may be recorded at the time of the sale / disposal or at year-end. If the gain/loss is considered significant, it should be considered in the evaluation of building depreciation rates over time (see section III.B.4 "Building Depreciation" for evaluating depreciation rates over time).

Capital Asset Standards

Appendix:

Abbreviations

OSC - Office of the State Controller
CI- Capital Improvement
CIP- Construction in Progress
CAG- *Capital Asset Group*
CAMS- *Capital Assets Management System*
OSBM – Office of State Budget and Management

Definitions

Acquisition Value:
The price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date.

Blended Component Unit:
A legally separate organization whose financial information is required by generally accepted governmental accounting standards to be blended with those of the university for financial reporting purposes.

Buildings:
Includes buildings, building components, building additions, improvements, renovations, rehabilitations, restorations, capital repairs or replacements, and equipment affixed to a building.

Cannibalism:
Taking parts from an asset that is no longer being used or in usable condition and using them to maintain other assets.

Capital Asset:
Property, such as land, land improvements, easements, buildings, equipment, works of art and historical treasures, and infrastructure, with a cost equal to or greater than $5,000 and a useful life of two or more years. Capital assets are acquired for use in normal operations and are not for resale.

Capital Assets Group:
A generic term used to refer to one or more offices responsible for (1) maintaining the university's capital equipment inventory, (2) maintaining the detail information on individual assets for supporting the buildings reported on the university's financial statements, and (3) recording

capital asset changes and depreciation on the university's general ledger. (See Stakeholders section)

The Capital Asset Group (CAG) is responsible for the identification and recording of the University's capital assets, as well as the development of functional policies and procedures for those processes and other related processes including tagging equipment, taking physical inventories, and the follow up on inventory results. In addition, the CAG is responsible for maintenance of the capital asset management system (CAMS) including the accounting for information related to the individual capital assets, the assignment of the capital asset's useful life, the recording of depreciation and accumulated depreciation, and the reconciliation of the CAMS to the University's financial system.

In doing this, the CAG interacts with and receives information from internal systems, the surplus office, campus departments and other central offices. The CAG strives to confirm that the university's equipment inventory records are accurate based on departmental reporting of changes that effect those assets during the year, as well as the annual departmental physical inventory process. This group may include a standalone office and/or specific employee assignments in the Controller's Office or other responsible office(s).

While this definition places the primary responsibility with a central administrative office(s), campus departments may be included as participating members of the CAG for tagging and inventory purposes if the following conditions are meet:

- The inclusion of the departments as participating members of the CAG is authorized in the university's Capital Assets Manual.
- The assigned individuals at the department level are independent of the individuals in the department having custody of the equipment
- The assigned individual has received training and certification by the primary CAG office as to the prerequisite knowledge for performance of the assigned responsibilities,
- The primary CAG office has quality assurance practices in place to assess performance of the assigned individuals.
- Spot checks are performed by the primary CAG office or other independent group (i.e. another central office, the internal auditor or a business service center above the department level) using a random, risk based or a combination of random and risk based selection. At a minimum, spot checks should be performed when the following risk factors exist:
    - A history of related departmental reporting issues or audit findings exist
    - Known issues exist with the reporting by the department or assigned individuals to the primary CAG office
    - Known issues exist with related systems being used by the department or assigned individuals

Capital Asset Standards

Capital Assets Management System:

A generic term used to refer to any method, system, or worksheet used to track and account for capital asset inventories and / or supporting detail information for each unique capital asset owned by the university.

Capital Assets Manual:

A document that holds the policies, procedures, and/or guidelines for the Capital Assets Office.

Capitalization:

The process for recognizing a capital asset in the financial statements.
In order to capitalize property, the cost must equal or exceed $5,000 and have a useful life of 2 or more years.

Capitalization of Repairs or Renovations:

The process for recognizing repair or renovation changes to a capital asset in the financial statements. Repairs or renovations must equal or exceed $5,000 and have a useful life of 2 or more years, and either a) significantly extends the useful life of the original asset, or b) increase the future service potential of the asset.

Certificate of Occupancy:

A generic term used to indicate a building has been approved to be occupied. For state construction projects, this is provided by a project approval from the State Construction Office to permit the owner to occupy or partially occupy the building. (See chapter 500 of the State Construction Manual)

Commodity Codes:

Fixed set of codes used by purchasing to identify groups of assets for purchase and may be used as subclass groups for depreciation calculations.

Component Parts:

Parts of a building that can be recorded separately in the *Capital Assets Management System*. These parts can have different useful lives and be depreciated on different schedules (e.g., roof, security system, flooring, and electric).

Component Unit:

A legally separate organization whose financial information is required by generally accepted governmental accounting standards to be either blended with those of the university's or discretely presented for financial reporting purposes.

Capital Asset Standards

Condition Codes:

A set of codes used to identify the physical condition of a capital asset. Condition codes are optional at the base level standards; however, they are highly recommended and encouraged. Maintaining condition codes on a current basis improves the quality of available information to the *Capital Assets Group* and assists management in evaluations and decisions affecting financial reporting and operating objectives. They assist the *Capital Assets Group* in making decisions regarding assets that are not used or in usable condition that affect financial reporting and, in the review, and evaluation of fully depreciated assets, especially those in poor or not in useable condition. Information regarding an asset's condition may also be important to upper management in the evaluation of the effect of deferred maintenance or replacements on operations, and the aging of equipment on the organization's objectives, its programs, future revenue potential, or need for special appropriations to restore capital investment and to improve performance and / or growth potential. This information may be especially important to the management of programs involved with improving / developing new knowledge or in the delivery of services.

Examples of condition codes may include the following:

Condition codes that represent assets that meet the requirement for capitalization and reporting on the financial statements generally would include:

Good or Excellent - indicates that the asset is in good working order, that it is usable and being used with only routine repair or maintenance requirements. If used, excellent would indicate that it is in new condition.

Fair – indicates that the asset is working but requires more than routine maintenance and repair to keep it in use but is still in service.

Poor - indicates that the asset is not working properly and needs major repair or reconditioning to work properly or is obsolete but is still in service.

Other condition codes could indicate issues with the reporting in the financials or issues needing management attention. These may include:

Missing - indicates that the asset was not located during an inspection but is being traced to determine its location.

Lost - indicates that a missing asset was traced but could not be located and is lost.

Not Used - indicates that the asset is in poor condition and is not useable or being used due to (1) not working properly and or not repairable, (2) being obsolete, or (3) the need for major repair or reconditioning that is improbable.

Surplus - indicates that the asset is pending or is at the surplus property office for disposal.

Capital Asset Standards

Stolen - indicates that the asset has been reported to law enforcement as stolen.

Scrapped - indicates that the asset has been scrapped.

Cannibalized - indicates that the asset is being used for parts for other equipment.

Limited Use – indicates that the asset does not meet the other condition codes and its use is limited. Generally, these assets are the result of replacements, but are retained for backup or continuity purposes. This does not include assets acquired and used on a limited basis due to seasonal or cyclical needs.

Depreciation:
The allocation of the total acquisition cost of a capital asset over its estimated useful life.

Equipment:
Includes furniture, equipment and machinery not affixed to a building / infrastructure, and motor vehicles.

Estimated Useful Life:
An accounting estimate determining how long an asset will be used or in usable condition.

Fabricated Equipment:
Fabricated equipment is defined as scientific or other complex equipment comprised of two or more individual components that are fabricated/built into a single functional unit. However, fabrication does not apply to components that are simply wired together and can be dismantled to operate separately (for example, IT components such as computers and network equipment). All components in the fabrication must function as a singular unit and be collectively disposed of at the end of the fabricated asset's useful life. Individual components of a fabrication cannot (1) be used independently of the other components or (2) function separately apart from the fabricated unit to which it is attached. Fabricated equipment is capitalized as a single asset when its combined total cost equals or exceeds $5,000 and has a useful life of two or more years.

Final Report:
A document required by the State Construction Office at the conclusion of a state construction project that provides comprehensive information regarding the project, its designers, contractors, and subcontractors, as well as their certificates of compliance and costs incurred for the construction project including change orders (see Chapter 600 of the State Construction Manual for more information).

Financed Purchase:

Capital Asset Standards

A lease or scheduled payment arrangement contract that does not have a termination option available and either (1) transfers title of the underlying asset to the institution by the end of the contract term or (2) a lease that has a purchase option for the underlying asset that the institution has exercised.

Increase in the Future Service Potential of an Asset:

Occurs when an extraordinary repair or replacement, renovation, or rehabilitation activity is significant and increases the building's value, adds to or increases the quality of the original building or building component, or increases the useful life of a building. Activity that restores the building or building component to its original utility level does not increase the future service potential of an asset. Such activity may however increase the building or building component's useful life if made toward the end of the building's estimated life. Determination of the increase in the future service potential of an asset should be made on a case-by-case basis.

Examples of activities that would be capitalized based on an increase in the future service potential of a building or building component include:

- Conversion of attics, basements, etc. to usable office, research, or classroom space that is significant and increases the building's value or adds to or increases the quality of the original building or building components.
- Structure attached to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc. that is significant and increases the building's value or adds to or increases the quality of the original building or building components.
- Original installation or upgrade of heating and cooling systems, including ceiling fans and attic vents, that is significant and increases the building's value or adds to or increases the quality of the original building or building components.
- Original installation or upgrade of floor, wall, or ceiling coverings such as carpeting, titles, paneling, or hardwoods that is significant and increases the building's value or adds to or increases the quality of the original building or building components.
- Structural change such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing that is significant and increases the building's value or adds to or increases the quality of the original building or building components.
- Original installation or upgrade of window or door frame, upgrading of window or doors, built–in closets and cabinets that is significant and increases the building's value or adds to or increases the quality of the original building or building components.
- Interior renovation such as original installation or replacement of casings, baseboards, light fixtures, ceiling trim, etc. that is significant and increases the buildings value or adds to or increases the quality of the original building or building components.
- Exterior renovation such as original installation or replacement of siding, roofing, masonry, etc. that is significant and increases the building's value or adds to or increases the quality of the original building or building components.

- Original installation or upgrade of plumbing and electrical wiring that is significant and increases the building's value or adds to or increases the quality of the original building or building components.
- Original installation or upgrade of communication systems including fiber optic cable and wiring that will remain in the building that is significant and increases the building's value or adds to or increases the quality of the original building or building components.
- Other improvements that are significant and increase the building's value or adds to or increases the quality of the original building or building components.

Examples of activities that would be considered maintenance expenses and do not increase the future service potential of a building or building component include:

- Adding, removing and / or moving walls relating to renovation projects that are not significant and do not increase the building's value or adds to or increases the quality of the original building or building components.
- Improvement projects of minimal or no added life expectancy and / or value to the building.
- Ordinary repairs, such as roofing, plumbing and electrical repairs that do not increase the building's value, add to or increase the quality of the original building or building components, or increases the useful life of the building.
- Cleaning, pest extermination, or other periodic maintenance.
- Interior decoration, such as draperies, blinds, curtain rods, or wallpaper.
- Maintenance-type interior renovations, such as repainting, touch-up plastering, replacement of carpet, tile or panel sections, sink and fixture refurnishing that are not significant and do not increase the building's value or adds to or increases the quality of the original building or building components.
- Maintenance-type exterior renovation such as repainting, replacement of deteriorated siding, roof, or masonry sections that are not significant and do not increase the building's value or adds to or increases the quality of the original building or building components.
- Replacement of a part or component of a building with a new part of the same type and performance capabilities.
- Any other maintenance-related expenditures that are not significant and do not increase the building's value or add to or increase the quality of the original building or building components.

Investment:

A security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has present service capacity based solely on its ability to generate cash or to be sold to generate cash.

Materiality:

Concept used by auditors to determine the extent and scope of audit procedures relative to the issuance of a financial statement opinion and the reporting of audit matters to management.

Capital Asset Standards

Management should understand the materiality levels and their effect on the financial statements.

Pilfering Risk:
Risk associated with assets that can be easily stolen, misplaced or lost such as computers, tablets, laptops, and other portable equipment.

Repairs or Replacements:
A service that is intended to maintain or restore a tangible asset and is either ordinary or extraordinary, as follows:

An ordinary repair or replacement is a service to a capital asset that is considered routine and expected that restores or keeps the asset in good condition, was anticipated when the original estimated life was determined, and does not extend the useful life of the existing asset.

An extraordinary repair or replacement is a service to a capital asset that is not considered ordinary, was not anticipated when the original estimated life was determined, increases the future service potential of the asset, and / or significantly extends the asset's useful life.

Salvage Value:
The amount of money an asset is worth after its useful life is over.

State Owned Property:
Any property that is legally titled to and in the name of the State or University, including property purchased, leased, fabricated, transferred from other organizations or donated.

Surplus Sale:
State run sale to dispose of state-owned assets by selling them to the highest bidder.

Tagging:
Placing or assigning a unique identification number on an asset for identification, tracking and recording purposes in the *Capital Assets Management System*.

References

1) State Regulations - http://ncrules.state.nc.us/ncac.asp
2) State Budget Manual - https://www.osbm.nc.gov/library
3) State Construction Manual - http://www.nc-sco.com/scomanual.aspx
4) OMB Circulars - https://www.whitehouse.gov/omb/circulars/

5) OMB Uniform Guidance - https://www.federalregister.gov/articles/2013/12/26/2013-30465/uniform-administrative-requirements-cost-principles-and-audit-requirements-for-federal-awards#h-172
6) OMB Circular A-110
7) OMB Circular A-21
8) OSC Policies and Procedures - https://www.osc.nc.gov/state-agency-resources/statewide-policy-directory?field_chart_of_accounts_type_tid=1072&field_chart_of_accounts_sub_type_tid=All&=Apply
9) UNC-BOG Policy Manual - http://www.northcarolina.edu/policy/index.php
10) Statewide Information Security Manual - https://it.nc.gov/statewide-resources/policies
11) ISO/IEC 27001 Technology Security Standards: http://www.iso.org/iso/home/standards/management-standards/iso27001.htm
12) Dollar Value Table – http://www.usinflationcalculator.com/

Templates and Examples

The following templates and examples were developed when the standards were created and due to time constraints have not been consistently updated to reflect current practices. As a result, starting in June 2023, the BPCP has developed an alternative way for the institutions to network and obtain necessary information about current practices.

A "Functional Responsibilities List" has been created that provides for the identification of individuals assigned responsibility for (1) Functional Activities, (2) Maintenance of Form and Guidance Documents, and (3) Key Individuals at each institution. The Functional Responsibility List is maintained and accessible on the BPCP SharePoint site. The List is provided in an excel format, and in order to be able to use it for research, data filtering is turned on. Data filtering allows you to specify the specific responsibilities, institutions, or tier groups as your research parameters. The data filtering results will provide you with a list of individuals and associated contact information for networking to assist your research in obtaining current information relative to policies, procedures, and practices in place at other institutions.

General Management

Equipment and Buildings:
1.a) Policies and Procedures example
Equipment:
1.b) Roles and Responsibilities matrix
1.c) Banner user guide example

Initiation / Acquisition

Equipment:
2.a) Asset information template

Capital Asset Standards

2.b) Example of information recorded in CAMS system
2.c) Evaluation of the Effectiveness of the Threshold for Capitalization of Machinery and Equipment and Determination of Amounts Under the Threshold that are Considered Significant for Financial Statement Reporting Purposes.
Buildings:
7.a) Example of CIP worksheet
7.c) Example of information to record in CAMS system

Depreciation

Equipment and Buildings:
3.a) OSC Depreciation Policy
3.b) Commodity code example
Buildings:
8.a) Component Depreciation rates

Record Maintenance

Equipment:
4.a) Annual Inventory Checklist / Guidelines
4.b) Spot Check Checklist / Guidelines
4.c) Missing Equipment Letter to the Department Head
4.c1) Missing Equipment Letter to the Dean / Vice Chancellor
4.e) Change in Location Form
4.f) Approval of Off-Campus/Home Use Form
4.g) Approval of Offsite Storage Form
4.h) Reconciliation of GL to CAMS
4.i) Year-End OSC ACFR Reconciliation
Equipment and Buildings:
4.d) Questionnaire for Assessing Capital Asset Impairments

Retirements / Disposals

Equipment:
5.a) Surplus Property Form
5.b) Equipment Disposal Form
5.c) Equipment Transfer Form