

PN 3.069

Policy for Capitalization and Inventory Control

I. General

In order to ensure compliance with Generally Accepted Accounting Principles and prudent financial management, a capitalization and inventory control policy for Frostburg State University has been developed.

Investment in property, plant and equipment comprises a substantial portion of the total assets of the University. It is essential for both financial statement and cost accounting purposes that the Institution follow a policy regarding capitalization, valuation, and control of plant and related assets.

Frostburg State University will capitalize and establish the necessary controls for the elements and values as described in Section II and III.

II. Real Property

The elements of real property are land, buildings, land improvements (other than buildings), and construction in process.

Land

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

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

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

Buildings

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

When buildings are purchased or acquired by gift or bequest, the basic of valuation is similar to that used for land. The cost or fair market value is allocated between the building and the related land.

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

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

Land Improvements (Other Than Buildings)

These include streets, pavements, landscaping, utility distribution system, and parking lots. The valuation method is the same as the one used for buildings.

Construction In Process

This includes all projects for buildings or land improvements construction that are not completed at the end of the fiscal year and are the current fiscal responsibility of the institution.

III. Personal Property

This includes those items identified below as movable equipment, library books, museums and art collections, and merchandise inventories.

Equipment (Unit Value of \$5,000 or More - Capital Equipment)

This includes all equipment that is not permanently affixed to buildings, has a useful life greater than one year, and has a unit cost of \$5,000 or more except for items predominately composed of glass, rubber, cloth and equipment held for resale.

1.) For equipment purchased, the valuation is the net amount paid through accounts payable which is the invoice price less all discounts (except trade-in allowances). Trade-in allowance is included in the asset value. The item traded in must be removed from the institution's records. Freight and installation costs are also included if they are shown on the original invoice, or if they are readily available on related freight bills. If actual costs are not readily available, a cost is estimated using the most realistic value possible.

2.) Equipment acquired by gift is recorded at fair market value at the date of inclusion in the institutional inventory.

3.) Leased equipment is capitalized if it meets the criteria outlined in the FASB Standard No. 13, which essentially provides that:

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

- a. It transfers ownership of the property to the lessee by the end of the lease term;
- b. It contains a bargain purchase option;
- c. The lease term is 75 percent or more of the estimated economic life of the leased property; or
- d. At the beginning of the lease term, the present value of the minimum lease payments (excluding executory costs), equals or exceeds 90 percent of the excess of the fair value of the leased property.

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

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

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

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

Equipment (Unit Value of Less Than \$5,000 - Non-Capital)

Movable equipment that does not meet capital equipment specifications because its total cost is less than \$5,000 or because it is predominately glass, rubber, or cloth is not reported for financial reporting purposes.

A higher level of control should be exercised over non-capital items that are easily converted to personal use or must be controlled to meet external reporting requirements, such as firearms, and personal computers.

Control of non-capital equipment must, at a minimum, be consistent with guidelines issued by the Vice President for Administration and Finance.

Library Books

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

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

The Property Control Officer will provide information to the institution controller for annual entries to the records underlying the financial statements. The Director of the Library shall provide information to such information.

Museum and Art Collections

Frostburg State University maintains an inventory of University-owned collections of art or of scientific or historical objects and includes this information in the financial statements.

Merchandise Inventories

Any functional unit involved in resale, either within the department or to other departments, institutions, or individuals, is required to maintain an inventory system appropriate to the value of items held for resale. The units involved in resale and the appropriate inventory system are determined by the Institution. Additionally, the unit must take a physical inventory of these items at year-end and report it on the university's financial statements.

IV. Inventory Adjustments

Any adjustments to the equipment inventory records that are a result of the physical inventory and require changes to the financial records are Approved by the Vice President for Administration and Finance prior to adjusting the property and financial records.

(Internal)