SYSTEM ASSETS

Putting it all Together and Taking it all Apart

PDI FY15 January 2015

CAPITAL ASSETS

Definition:

- Items which are not considered an integral part of a university building, are non-expendable, do not lose their identity through incorporation into a more complex unit, have a useful life of more than one year and have an acquisition cost equal to or greater than $5,000.00 or other threshold amounts as set by a contract, agreement, or grant.
- An item is non-expendable if it is characteristically restored to service by replacement of lost, worn or damage parts. Examples are machinery (which is not a part of a building's mechanical system); furniture and furnishings; instructional and research equipment; athletic and recreational equipment; household, hospital and library equipment; vehicles; aircraft and watercraft.
- Generally, equipment that is attached to a building will be capitalized as moveable equipment when removing the equipment does not cause structural damage to the building and will not destroy the equipment.

FIXED ASSETS ($50,000.00):
Consists of land and buildings that include new construction, alterations and renovation projects that meet the specific criteria for fixed capital assets. Fixed assets also include equipment that is usually attached and integral to the building's function, although it might have a shorter life than that of the building.

ACQUISITION COSTS TO INCLUDE

Examples of service costs that can be capitalized with equipment purchases may include:

- Shipping or Freight
- Transportation or In-Transit Insurance
- Installation
- Cost of Assembling the Asset
- Preparing the Site and Asset for its intended use
- Attachments, Accessories or Auxiliary Apparatus that are *necessary to make the property useable for the purpose of which it was acquired.*
- Assets are recorded net of cash and other earned discounts.

ITEMS NOT CAPITALIZED REGARDLESS OF COST

- Repair or replacement parts that are **not** considered a betterment or upgrade (use 6202-Repair Part, 6602-Maintenance Services or 6802-Repair Services).
- An item or substance that has no shape or identity, or loses that shape or identity upon detachment or removal from its original location (i.e. Materials/Consumables).
- Maintenance, Warranty or Service Agreements*
- Training*
- Support Agreements*
- In-House Installation or other labor provided by CSU personnel (i.e. work orders).
- Demolishing or dismantling, reassembling or reinstalling due to movement or rearrangement of equipment.

*If these items are lumped into the cost without a separate amount, then they are capitalized.

PUTTING IT ALL TOGETHER

Definition:

System Assets are assets that have multiple items combined that act as one asset. There are several things to consider.

- Cost
- Use
- How and When items are purchased
- Connectivity
- Dependency on other items
- Interchangeability
- Disposal

It is also important to consider the accounting that will occur over the life of an asset.

Per CSU's Procurement Manual:
Departments are prohibited from artificially splitting a purchase in order to circumvent the $5,000.00 limit.

TYPES OF SYSTEM ASSETS

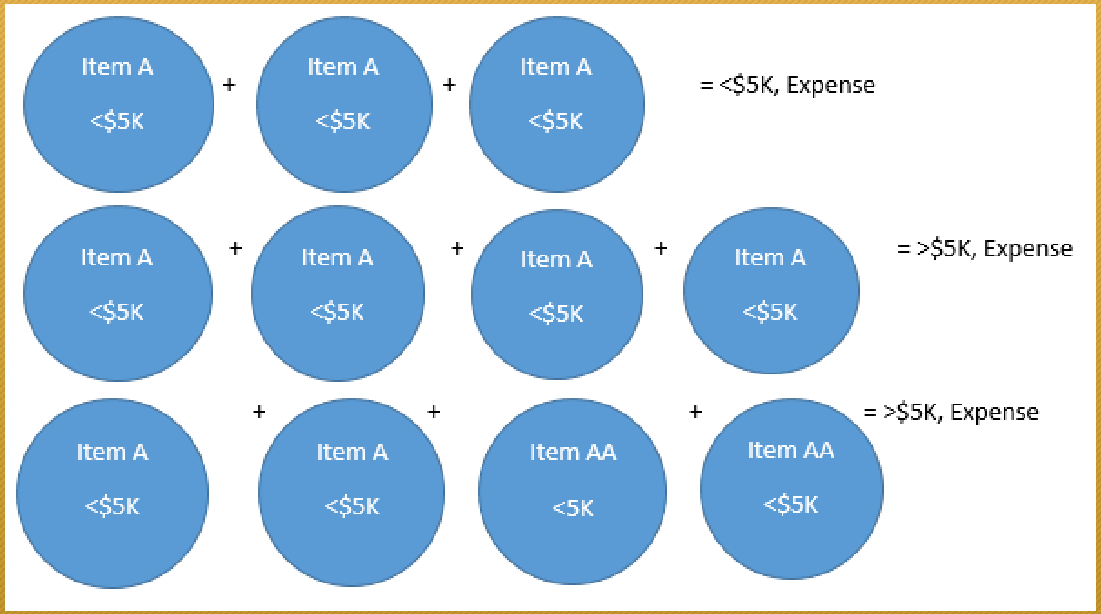
- **GROUP ASSETS**
- **CLUSTER ASSETS**
- **BUNDLED ASSETS**
- **COMBINED ASSETS**
- **HOST ASSETS**
- **MULTIPLE UNIT ASSETS**
- **ELECTRONIC ASSETS**

GROUP ASSET (NON-CAP)

Group Asset: Multiple property *units of **like items*** that do not meet capital criteria on their own; and the units function together and are interchangeable, but *are not necessary to make the conglomeration useable*. Connection is usually minimal (by a cable or wired connection). A Group Asset is NOT capitalized.

- Look for the terms: *Modular, Linked, Segment, etc.*
- Key: Individual like items do not meet capital criteria but the *quantity ordered* makes the total amount at or above capital criteria. If items are similar and meet other characteristics, they should be expensed. **If you remove one of the items, the asset will still function.**

GROUP ASSET EXAMPLES



CLUSTER ASSET

Cluster Asset: A combination of similar *Individual Assets* that can function independently, but may be related to or associated with a larger conglomeration for management or control purposes. These assets meet capital criteria on an individual basis. Combining them as a Cluster may be permanent or temporary. Individual assets can be added or removed.

Capitalizing a Cluster Asset as one system is an exception and it will only be considered if significant costs and permanent connections are involved to combine the cluster and it will be disposed of as one unit.

- Key: Merging the assets into one cluster asset may be considered in exceptional cases.

CLUSTER ASSET EXAMPLE

Individual Asset >$5K	+	Individual Asset >5K	+	Individual Asset >5K		= 1 Capital Asset

Individual Asset:

A Stand-alone asset that functions on its own and meets capital criteria. It *may* be associated with other items to create a system.

BUNDLED ASSET

Bundled Asset: The cost of the asset is bundled and meets capital criteria but individual item costs are unknown. The items will be kept together as one asset.

- Look for the terms: *Kit or Set*.
- Key: Quotes will not have individual item costs listed.

Exception: If you are purchasing the ***exact same independent items*** in bulk and you know the number of items you are purchasing, you can determine the individual cost by dividing the total cost by the number of items being purchased. You would use that individual cost to determine whether to capitalize each item individually or expense the entire bundle.

BUNDLED ASSET EXAMPLES

COMBINED ASSET

Combined Asset: A combination of *items* that *function together* as a **single asset**. The *items* generally would not be capitalized on their own, but as a conglomeration the total cost is over $5,000.00. Combined assets are connected in a manner of dependency.

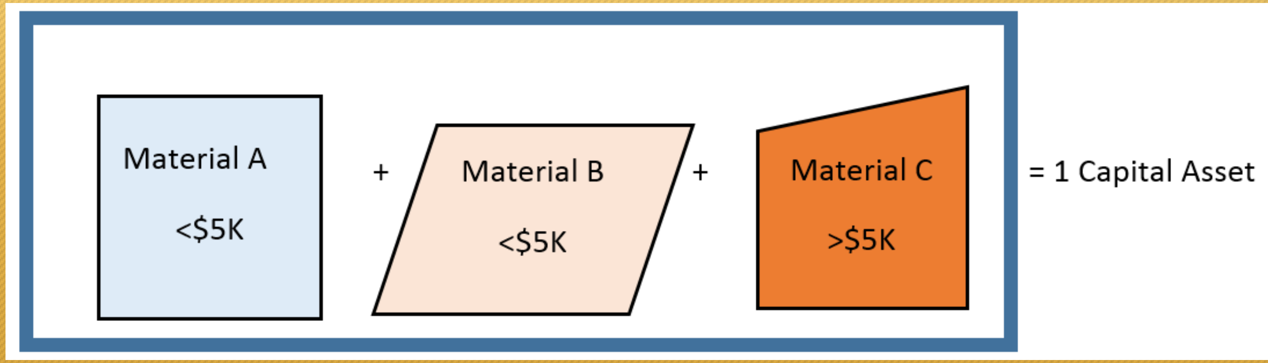
- Look for the terms: *Assembled* or *Fabricated.*
- Keys: All items are needed to make the asset function as a whole. **If any item is removed, the asset will not function as a whole asset.** Items are *integrated*. Unless you are building an asset, if the items were purchased separately they would, generally, not be capitalized individually.

Business Rules for Modify Existing are used to determine capitalizing additional items.

- ***NOTE:*** If you are building an asset over a long period of time (perhaps even crossing fiscal years) and purchases are made on multiple PO's and/or from multiple vendors, a Work-in-Process (WIP) should be set up to capture the costs until the asset is completed.

Deliverables are *not* capitalized.

COMBINED ASSET EXAMPLES



Materials: Items that lose their identity when consumed through use; such as parts, construction materials, and other low-dollar items.

HOST ASSET

Host Asset: The host asset is a *primary asset or main unit* that *functions together* with *subunits* or *individual subunits*. Connection is usually minimal (by cable or wired connection). The *subunits* and *individual subunits* are interchangeable and do not function with each other, but are easily interchangeable with another *primary asset* or *main unit*.

- Look for the terms: *Attachment, Accessory, or Auxiliary apparatus.*

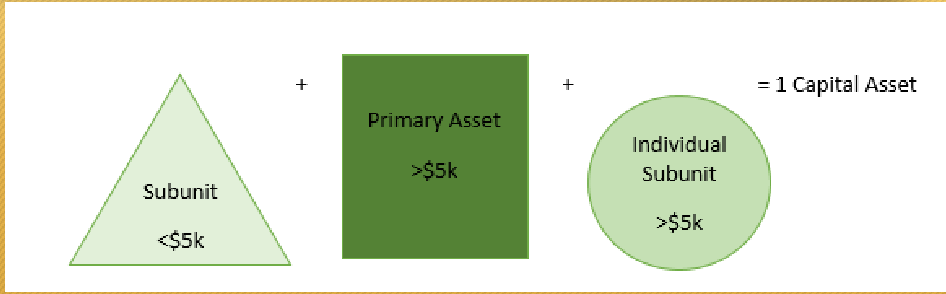
Keys: The Primary Asset meets capital criteria and can function on its own but it is combined with Subunits or Individual Subunits. A Main Unit may or may not meet capital criteria and cannot function on its own but when combined with Subunits or Individual Subunits it will function as one asset. Also, the subunits or individual subunits do not function directly together.

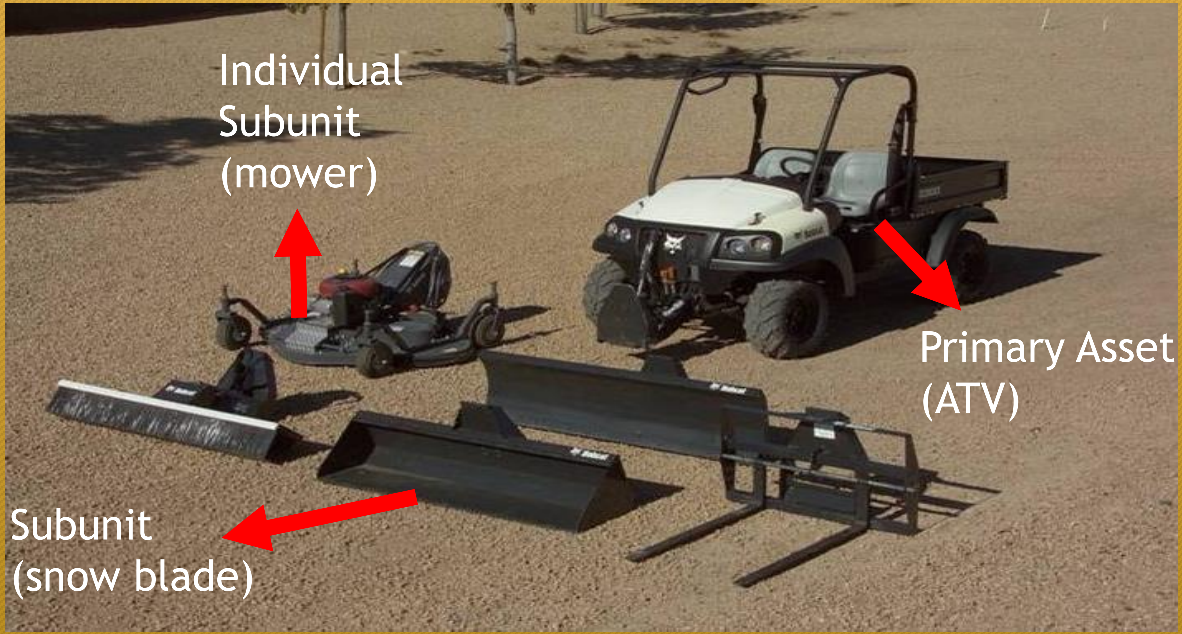
Business Rules for Modify Existing are used to determine capitalizing additional items.

Remember, Costs to include in a Capital Asset are: Attachments, Accessories or Auxiliary Apparatus that are *necessary to make the property useable for the purpose of which it was acquired.*

HOST ASSET EXAMPLE (WITH A PRIMARY ASSET)

Primary Asset: A Stand-alone asset that meets capital criteria and can function on its own but is associated with a subunit(s) or individual subunit(s).
Subunit: An attachment, accessory, or auxiliary apparatus. A subunit has an integral relationship with a primary asset or main unit; it cannot be used without the primary asset or main unit. Subunits do not meet capital criteria.
Individual Subunit: An attachment, accessory, or auxiliary apparatus. An individual subunit has an integral relationship with a primary asset or main unit; it cannot be used without the primary asset or main unit. Individual Subunits meet capital criteria.





Note: Subunits and Individual Subunits do not function directly with each other or by themselves (they need the Host).

HOST ASSET EXAMPLE (WITH A MAIN UNIT)

Subunit <$5K + Main Unit <$5K >$5K + Individual Subunit >$5K = 1 Capital Asset

Main Unit: An individual item that cannot function on its own and has an integral relationship with other items; it cannot be used without another item. A Main Unit may or may not meet capital criteria.

Individual Subunit (lens)

Subunit (lens)

Main Unit (camera)

MULTIPLE UNIT ASSET

Multiple Unit Asset: Any combination of *items* that *function together* as a **single asset.** The conglomeration meets capital criteria. The life and usefulness of the items are mainly dependent on the property unit as a whole and are *not likely to be transferred* and will usually *be disposed of as a complete asset*. Assets of this type will be entered in the asset record as a single asset. If any single item is removed and needs to be replaced, the new item should be purchased as an expense, unless it qualifies as a betterment or upgrade.

Look for the term System.

- Keys: Multiple items are connected to make the asset function as a whole.

Use the Business Rules for Modify Existing to determine how to capitalize additional items.

MULTI-UNIT EXAMPLES

Unit (A) <\$5K + Individual Unit (B) >\$5K + Individual Asset (C) >\$5K + Individual Unit (D) >\$5K = 1 Capital Asset

Unit: An individual item that cannot function on its own. A unit has an integral relationship with other items; it cannot be used without another item. Units do not meet capital criteria.

Individual Unit: An individual item that cannot function on its own. An individual unit has an integral relationship with other items; it cannot be used without another item. An Individual Unit meets capital criteria.

Remember the things to consider: Cost; Use; How and When items are purchased; Connectivity; Dependency on other items; Interchangeability; and Disposal.

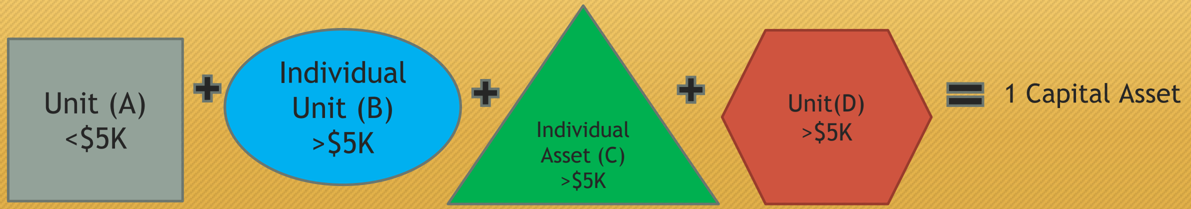
ELECTRONIC SYSTEM ASSET

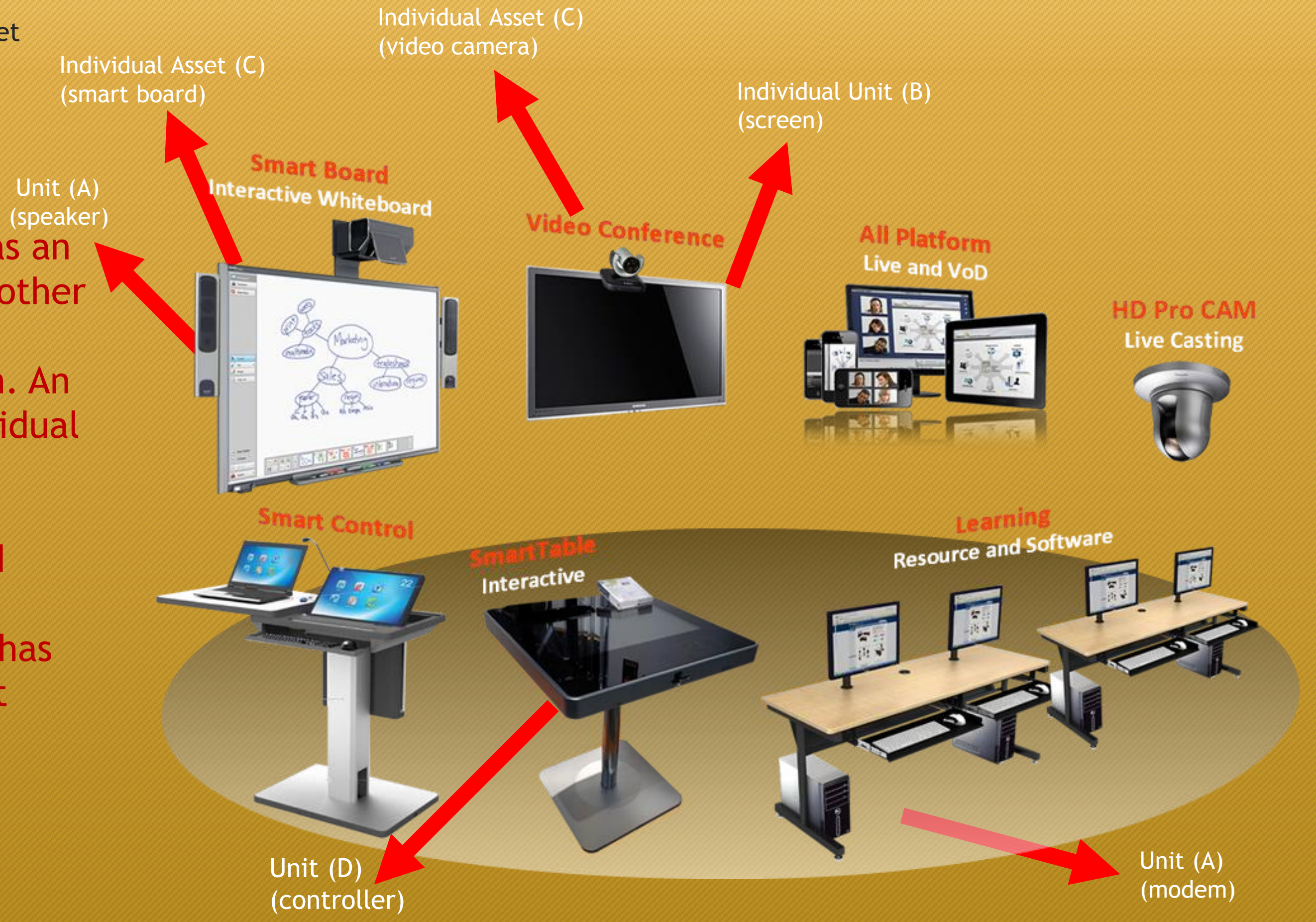
Electronic System Asset: This category is separated due to the nature of combining items together such as; desk top computers, audio rooms, video rooms, telephone systems, or any other technical items that work together. The below criteria should be used to help determine whether to capitalize or not.

- ***Physical attachment*** – If the items are connected in a *manner of dependency* greater than a cable or wired connection, capitalize as an Electronic System Asset.
  - Otherwise, if the only means of attachment is a cable or wired connection, the units should be expensed if they are under $5,000.00 each. If any of the items are over $5,000.00 each, then they should be capitalized individually.
- ***Lack of interchangeability*** – If removing an item renders the system inoperable, the conglomeration may be capitalized as an Electronic System Asset.
  - Otherwise, if the items can be easily disconnected from the system asset and used in a similar manner with another system, the items should be expensed if under $5,000.00 each. If any of the items are over $5,000.00 each, they should be capitalized individually.
- Look for the term System.
- **Keys:** All items function as one system. Connection is in a manner of dependency, usually installation costs are involved (greater than just connecting wires). Removing an item is possible but the conglomeration was designed to stay together and the useful life is considered as a whole rather than the individual items.

Use the Business Rules for Modify Existing to determine how to capitalize additional items.

ELECTRONIC SYSTEM ASSET EXAMPLE





Unit: An individual item that cannot function on its own. A unit has an integral relationship with other units; it cannot be used without another unit. Units do not meet capital criteria.

Individual Unit: An individual item that cannot function on its own. An individual unit has an integral relationship with other units or individual units; it cannot be used without another unit or individual unit. An Individual Unit meets capital criteria.

Individual Asset: A Stand-alone asset that functions on its own and meets capital criteria.

Main Unit: An individual item that cannot function on its own and has an integral relationship with other items; it cannot be used without another item. A Main Unit may or may not meet capital criteria.

HOW WOULD YOU CAPITALIZE THESE?

ALARM SYSTEM

Studio Recording Room Equipment

Audio System

Remember the things to consider: Cost; Use; How and When items are purchased; Connectivity; Dependency on other items; Interchangeability; and Disposal.

TRACKING ASSETS

There are multiple scenarios that can happen during the lifecycle of an asset. For tracking purposes we want to focus on when you *remove and replace items* on an existing asset and when you *modify or add-to* an existing asset.

ADDING TO EXISTING ASSETS

If you are purchasing a new item for an existing asset, and not removing an item from the existing asset, it is considered an add-to item.

If you are doing a modification to an existing asset, and not removing an item from the existing asset, it can be considered a betterment/upgrade.

If are purchasing a new item for an existing asset, and removing a similar item from the existing asset, the new item will either be a betterment/upgrade or a repair/replacement part.

Business Rules for Modify Existing need to be followed in order to capture the new costs correctly.

BETTERMENT/UPGRADES

Definition:

Betterment/Upgrade: An expenditure, in connection with an existing asset, which significantly extends the useful life of the asset; increases its utility or efficiency or otherwise adds to the benefits it can yield.

- There is a increase in the functionality of the equipment which allows the existing asset to function or perform tasks it was previously incapable of performing.
- There is a increase in the efficiency of the equipment, that is, an increase in the level of service provided by the equipment without the ability to perform additional tasks.
- There is a significant extension of the estimated useful life of the equipment.

Betterment/Upgrades can be capitalized and largely fall into two categories:

- The upgrade is for an existing asset purchased in the *current* fiscal year and costs at least $1,000.00.
- The upgrade is for an existing asset purchased in a prior fiscal year and the cost of the upgrade is $5,000.00 or more.

Determining whether to capitalize a betterment/upgrade as a “new” asset or as a “modify existing” asset depends upon the business rules for modify existing. Modify Existing is used to communicate to the Property Management Department that the line item purchased is an item that will be used with an existing asset.

BUSINESS RULES FOR MODIFY EXISTING (NEW/ADD-TO)

When adding a new item to an existing asset (not replacing an item that is already on an existing asset) the asset becomes a system. A system is defined as items that work together to perform one function.

In order to capitalize a new item being added to an existing asset as *modify existing*, all of the following criteria must be met:

- The new item must be purchased in the ***same fiscal year*** as the existing asset.
- The cost of the new item must be at least $1,000.00 or more.
- The new item must increase the capacity or operating efficiency or extend the useful life of the asset (i.e. Betterment/Upgrade).

BUSINESS RULES FOR MODIFY EXISTING (cont.)

- When a new item of a system is $5,000.00 or more and purchased in the same fiscal year as the existing asset, but the life of the new item differs from that of the existing asset (see asset type codes), the new item should be created as a new asset.
- The existing asset should be reviewed to ensure the asset category (Property or Plant “fixed equipment”) matches that of the purchased item to be applied.

MODIFY EXISTING (INTEGRATED)

Integrated Upgrades: Modifications that are done to an existing asset that qualify as a betterment/upgrade. This involves materials that are individually insignificant in cost but as a whole, are rather expensive.

- If the modification is purchased within the same fiscal year as the existing asset and cost $1,000.00 or more, use modify existing and capitalize.
- If a modification of $5,000.00 or more will be added to an existing asset that was purchased in a prior fiscal year, capitalize the modification as a new asset (use “New” instead of “Modify Existing”) and reference the asset or decal number in the notes section.   Property Management will determine how to handle merging the new costs with the current asset.
- If the cost of the modification is under $5,000.00 and will be added to an existing asset that was purchased in a prior fiscal year, expense it.

TAKING IT ALL APART

In order to ensure the accounting record reflects the most accurate asset information, Property Management needs to be involved when taking system assets apart.

Whether an item is permanently removed from a System Asset, interchanged with a similar asset, or temporarily removed, proper accounting needs to be done to update the asset record.

When it comes to <u>*replacing*</u> items in connection with an existing asset, *it is important to distinguish the difference between a betterment/upgrade item and a replacement/repair item.*

REMOVING ITEMS

If you remove an item from a capital asset you need to ask the following:

- Will the asset still function?
- Will the item removed be replaced?
- Is it temporary or permanent?
- What will be done with the removed item?
- What will be done with the remaining asset?
- Is the decal on the remaining asset or on the item that was removed?

These are important questions to ask in order to track the asset properly. Each answer can have a different effect on the way this situation should be handled.

NOTE: Departments should not give away or dispose of any items without permission from Surplus Property and should contact Property Management and Surplus Property for assistance if a trade-in is involved.

TRADE-INS

A trade-in is when CSU receives a value for an item or items and that value is referenced on the quote as a trade-in allowance towards the purchase of a new asset or assets.

If department is trading-in all or part of an active asset in Kuali, approval must first be obtained from Surplus Property, then an Asset Retirement Doc using "trade-in" needs to be submitted. Cross reference both the requisition doc number, and the retirement doc number in the notes section of each document.

If the item being traded-in is not an active asset in Kuali, submit an EACR for approval. Once approved, attach the approved EACR to the requisition.

REPLACEMENT/REPAIR

Replacement/Repair: An expenditure, in connection with an existing asset, which an item is purchased to restore the asset to its *original* operating condition.

The new item does not meet the betterment/upgrade definition and merely replaces or repairs a worn out or broken part of an existing asset. This will be considered an expense, regardless of cost.

= Repair/replacement

Send original to Surplus and expense the replacement

= Modification

The result is a betterment and is subject to the fiscal rules for modification

Mr. Potato Head (System Asset)

POINTS OF EMPHASIS

- Property must be notified of any modification to an existing asset.
- Whenever there are changes to an existing asset, please reference the asset or decal number in the requisition notes.
- Do not dispose of any parts without approval from Surplus and Property Management.
- Fiscal year and cost determine the capitalization of modifications.
- Any item traded in, regardless of cost/value, must be approved by Surplus and Property Management.
- Items removed and being retained for continued use, may need to be decaled as an individual asset.
  - Items that will not be used in the foreseeable future should be sent to Surplus while monetary value or opportunity for reutilization may still exist.

SYSTEM ASSETS

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