

## 4.5 ASSET CAPITALIZATION POLICY

Policy #: 4.5

Date Reviewed: 03-12, 4-14, 7/2021

Approved: 07-10, 4-14

It is essential that IAFN follow a uniform policy with respect to the acquisition, capitalization, management and disposition of equipment and other capital assets for financial statement purposes and for compliance with federal requirements (Office of Management and Budget Circulars).

### CAPITALIZED MOVEABLE EQUIPMENT

#### I. ACQUISITION

##### A. Definitions

*Capital equipment* is equipment that is: 1) durable (economic useful life greater than one year); and 2) has a cost which equals or exceeds certain thresholds established by the IAFN in accordance with federal guidelines.

*Expensed equipment* is equipment that is not durable (economic useful life of one year or less) or has a cost below certain thresholds established by the IAFN in accordance with federal guidelines.

##### B. Valuation

The valuation of equipment, whether purchased or fabricated, is based on unit cost. Only assets with a unit cost of \$5,000 or more and having a useful life of more than one year are capitalized. A group of assets that in total cost \$5,000 or more (e.g., 10 chairs costing \$300 each) is not capitalized.

The total unit cost is determined by the sum of: 1) the cash disbursed (purchase price less applicable discounts plus applicable transportation and installation charges\*) for each unit; 2) the net book value of any assets given in exchange; and 3) the present value of any liability incurred. If the equipment is acquired by gift, the valuation is the fair market value at the date of gift, if determinable. Otherwise, an appraised value is used. If acquired by loan (usually from a grant or contract sponsor), the value assigned to the equipment by the sponsor will be used.

##### C. Ownership

Generally, the IAFN owns all equipment purchased with IAFN funds (includes restricted, unrestricted, gift, grant, contract, etc.) Title to equipment purchased with federal funds (from federal contracts and grants) vests in the IAFN upon acquisition unless exceptions are noted in the specific contract or grant agreement. Although title to equipment purchased with federal funds generally vests in IAFN, the government reserves the right

to transfer title for capital equipment within 120 days of the termination of the contract or grant. In addition, capital equipment is usually subject to certain conditions on use and disposition. These rules can vary by federal agency.

#### **D. Capitalization**

IAFN's equipment capitalization threshold is \$5,000.

1. **New Acquisitions** - New acquisitions of equipment are capitalized when the unit value is equal to or exceeds \$5,000 and the economic useful life is more than one year.
2. **Computers/Software** - When initially purchasing a computer system, the following items will be considered as one unit: System unit including disk-drive(s), modems, expanded memory, cables, keyboard, monitor, operating system software, and other peripheral devices purchased as an integral part of the system. The purchase of printers, text scanners, and other similar devices for office systems are typically not considered an integral part of the system. Software acquisitions costing \$5,000 or more per unit and having a useful life of more than one year will be capitalized.
3. **Enhancements** - Acquisition and installation of component parts to enhance the life and capabilities of an existing item of equipment are capitalized in cases where the cost and useful life of the enhancement equals or exceeds the capitalization standards. In these cases, IAFN should document the tag number of the equipment being enhanced and indicate the purchase is an enhancement to that asset.
4. **Repairs and Maintenance** - Parts and labor used to repair or maintain existing equipment should be expensed.
5. **Leased Equipment** - In the event the IAFN entered into a capital lease, the asset should be capitalized at the net present value of the lease payments and recorded in the fixed asset system in the same manner as other purchased assets. Payments related to operating leases should be expensed.
6. **Gifts** - Gifts of capital equipment (value of \$5,000 or more) should be added to the inventory system.

## **II. DISPOSITION**

### **A. Trade-in**

When capital equipment is traded in to defray cost of a new item, it needs to clearly identify the capital equipment item planned for trade-in. Information on the trade-in should include tag number, description, model and serial number and the value to be received.

### **B. Lost/Stolen**

Upon discovery that capital equipment has been lost or stolen, immediately report the facts to management.

## **III. MANAGEMENT RESPONSIBILITIES**

## **A. Custodial Departments**

**Acquired** equipment either through purchase, donation, or loan will have the following in place:

- a. Use of appropriate IAFN forms and account numbers to record purchases, sales, and other activity.
- b. Appropriate care to avoid purchase of unnecessary items.
- c. Compliance with sponsor requirements when acquiring equipment from contract and grant funds or receiving equipment on loan from the government.
- d. Prompt resolution of invoice/purchase order discrepancies to facilitate timely payment to vendors.
- e. Appropriate processes are followed for trade-ins.
- f. Equipment purchased is received and in good condition.

## **B. Asset Management / Equipment Inventory Management**

IAFN maintains one inventory which will include the official capitalized equipment records to reflect actions concerning the addition of new equipment, modifications to equipment, and changes in location, changes in condition, custodianship, and disposal. IAFN will initiate and coordinate an inventory of capital equipment no less frequently than every two years.

## **IV. FEDERAL REQUIREMENTS**

### **A. Use and Disposition of Federally-funded Equipment**

Equipment items purchased with federal funds are subject to certain federal controls on usage and disposition except when specifically stated to be "exempt" by the federal funding agency.

The overall usage and disposition requirements listed below are applicable if no exemption exists.

### **B. Uniform Administrative Requirements for Equipment**

(OMB Circular A-110, Subpart C, Section 34)

1. Equipment acquired with federal funds shall not be used to provide services to non-federal outside organizations for a fee that is less than private companies charge for equivalent services, unless specifically authorized by federal statute, for as long as the federal government retains an interest in the equipment.
2. Equipment shall be used in the project or program for which it was acquired as long as needed, whether or not the project or program continues to be supported by federal funds.
3. Equipment shall be made available for use on other projects or programs if such other use will not interfere with the work on the project or program for which the

equipment was originally acquired. First preference for such other use shall be given to other projects or programs sponsored by the federal awarding agency that financed the equipment; second preference shall be given to projects or programs sponsored by other federal awarding agencies.

4. When acquiring replacement equipment, the IAFN may use the equipment to be replaced as trade-in or sell the equipment and use the proceeds to offset the costs of the replacement equipment subject to the approval of the Federal awarding agency.
5. The IAFN's property management standards for equipment acquired with Federal funds and federally-owned equipment shall include all of the following:
  - a. Equipment records shall be maintained accurately and shall include the following information:
    - i. a description of the equipment;
    - ii. the manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number;
    - iii. funding source of the equipment, including the award number;
    - iv. whether title vests in the IAFN or the Federal Government;
    - v. acquisition date and cost;
    - vi. location and condition of the equipment;
    - vii. ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where the IAFN compensates the Federal awarding agency for its share.
  - b. Equipment owned by the Federal government shall be identified to indicate Federal ownership.
  - c. A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference.
  - d. Adequate maintenance procedures shall be implemented to keep the equipment in good condition.
6. When the IAFN no longer needs the equipment, the equipment may be used for other activities in accordance with the following standards. For equipment with a current per unit fair market value of \$5,000 or more, the IAFN 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. If the IAFN has no need for the equipment, the IAFN shall request disposition instructions from the Federal awarding agency.