# Methodist University Property, Plant and Equipment Policy and Procedure

**Definition**

Expenditures for tangible assets that benefit a period exceeding one year and whose cost is $1,000.00 or greater are capitalized as property, plant and equipment. Property, plant and equipment are categorized on the University's financial records according to the following asset types:

| Asset type | Estimated life in years |
|---|---|
| Land | N/A |
| Land Improvements | 10, 12 or 25 |
| Buildings | 10, 25 or 50 |
| Building Improvements | 10, 25 or 50 |
| Plant Equipment | 10 or 25 |
| Computer Equipment | 5 |
| Vehicles | 5 |
| Leasehold Improvements | 10 |
| Library Books | 12 |
| Faculty Housing | 50 |
| Construction in Progress | N/A |

**Acquisitions**

Acquisitions are made in accordance with the budget. Capital budgets are developed in conjunction with the operating budget for review and approval by the Administrative Committee and ultimately the Board of Trustees. Since the budgeting process takes place well in advance of the fiscal year, estimations of acquisitions for the coming budget year must be made. The decision to purchase a capital asset is an informed one based on current year budgets, projected benefits of the addition, and analysis of the lease versus purchase option.

In some instances, capital items will need to be purchased that were not included in the budget. These acquisitions must be approved by the appropriate Vice President. The University permits individual departments, who have obtained Vice Presidential approval, to reallocate their respective line item budgets to accommodate the purchase of unbudgeted capital items. Approved budget transfer requests are submitted to the Controller's Office for recording in the budget reports.

Expenditures for tangible assets that benefit a period exceeding one fiscal year and whose cost is $1,000.00 or greater are capitalized as property, plant and equipment. Capital Outlays are expensed on the operating budget throughout the year, and subsequently transferred out to the Plant Fund for capitalization and depreciation. Any purchases of capital assets exceeding $5,000.00 must be approved in advance by the Vice President for Business Affairs. Purchased items of property, plant, and equipment that meet the capitalization requirements are to be capitalized at the invoice price, less refundable sales tax, plus all charges incurred to prepare the asset for operation. Cost of acquisition or construction includes not only the contract or invoice price but also such costs as preliminary engineering studies and surveys, legal fees to establish title, installation costs, non refundable use tax, freight, and labor and material used in construction or installation. Sales tax is usually not included in the acquisition cost, as the University receives a refund of said taxes. Cash discounts taken are recorded as a reduction of the cost.

Expenditures made by the University for the construction of buildings or improvements are capitalized and referred to as Construction in Progress during the construction phase. Construction in Progress includes expenditures such as those for materials and labor, related engineering and legal fees, and applicable interest. Such expenditures are coded to an improvements account, using a Project Number to identify the specific project. Upon completion of the project, the total cost is transferred from Construction in Progress to Fixed Assets. Depreciation begins when the asset is placed in service.

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**Disposals**

Disposal of capital assets occurs only after proper authorization has been given. No item of property, plant or equipment is to be removed from the premises without proper approval. Control over the disposition of property is maintained not only to preserve the accuracy of the records but also to ensure that assets are safeguarded, improper disposal is avoided, and the best possible terms are received for disposal. Disposals must be reported on the *Asset Disposal/Transfer Form,* approved by respective Vice President, and forwarded to the Controller's Office for recording.

**Depreciation**

The cost (less salvage value) of all capitalized assets is depreciated, or spread, over the estimated useful lives using the straight line depreciation method, in accordance with generally accepted accounting principles. Fully depreciated assets remain on the property records with the related accumulated depreciation as long as the property remains in use.

**Reporting and tracking**

Control is maintained over capital assets and their related records to ensure that all recorded assets exist and are in use for operations. A detailed listing of all fixed assets and their related depreciation is maintained by the Controller's Office. Individual asset listings by location are periodically distributed to the applicable department heads to review for accuracy. All identifiable asset acquisitions are inspected and tagged by an Accountant from the Controller's Office. Asset disposals, as reported by the department heads, are removed from the fixed asset listing. Transfers of assets from one department to another, as reported by the department heads, are recorded by the Controller's Office. The Controller's Office performs periodic inspections of randomly selected fixed assets.

**Distinguishing capital items from repairs**

Expenditures that increase the value of property, prolong its life, or adapt it to a new or different use are capital expenditures. If the life of the asset has been significantly extended, the remaining original cost and the repair cost will be depreciated over the new life. Examples of expenditures that are capital in nature include replacing floors, replacing a roof, reconditioning machinery, replacing an automobile engine, overhauling an automobile, installing a new heating system, etc.

Repair expenses are distinguished from capital expenditures for improvements, additions, renovations, alterations, and replacements. Expenditures are repair expense if they do not materially add to the value of the property and do not materially prolong the life of the property. Examples of repair expense include replacing loose or damaged shingles, replacing broken glass, painting and decorating a classroom, temporary repairs expected to last less than one year, minor repairs to fully depreciated assets, etc.

**Deciding whether to lease or purchase**

Obtaining the use of property, plant, and equipment through long-term leases is an alternative to out-right purchase. Leases vary in term, assumption of expenses, and many other details. The purchase-versus-lease decision is based upon the basis of net cost, considering cash flow and suitability of the asset to leasing (i.e. some assets, such as computers, are subject to rapid technological change and may not be of as much benefit to the company after a few years). All leases, whether capital or operating, must be approved in advance by the Vice President for Business Affairs.