

ADMINISTRATIVE PRACTICE LETTER

Section I – G.1
Issue 1
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Effective 02/16/2006

SUBJECT: Capital Assets- Frequently Asked Questions

1. What is a capital asset?

A Capital asset is defined as real or personal property that has a value equal to or greater than the capitalization threshold for the particular classification of asset. It is an item that is permanent in nature having a life of greater than one year, is tangible, and is held for purposes other than investment or resale.

There are six major classes of capital assets: land/land improvements, buildings/building improvements, improvements other than buildings, leasehold improvements, personal property, and computer software.

For additional information see Section I – G.2 Capital Assets Administrative Practice Letter (APL)

2. When should I contact the System office?

University personnel are welcome to contact the System's Director of Facilities or the System's Capital Asset Accountant any time they have questions or need assistance related to capital or maintenance expenses. However, University personnel **MUST** contact the System Office when one of the following occurs:

- Real estate is being purchased or received as a donation
- A capital leasehold improvement is placed in service
- To report an annual inventory of works of art and historical treasures for insurance purposes or to report acquisitions or disposals of such assets as they occur.
- Capital assets (including real estate) is disposed of or transferred to another location.
- The University enters into a capital lease.
- To request an internal loan.

For information on who to contact in the above situations, see Section I – G.2 Capital Assets Administrative Practice Letter (APL).

3. Can I capitalize window, roof or HVAC replacements as a building improvement?

No, these costs are normally expenses as maintenance.

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4. Can I capitalize a bulk purchase of equipment or furniture even though no individual item costs \$5,000 or more?

Generally, the answer is no. However, if equipment or furniture is purchased in bulk as part of a building acquisition or the construction of a new building or building addition you may be able to capitalize the purchase. To do so, the aggregate cost of the items must be \$50,000 or more and the items must have a useful life of more than one year.

Bulk purchases related to a construction of a new building are tagged as one unit separate from the building.

5. Should a complete system such as a smart classroom or telephone system be capitalized?

Construction of a system such as a technology room, smart classroom or telephone system is considered capital if the total value of the components making up the system is \$50,000 or more. Systems are tagged as one unit..

[Also see fabricated equipment in Administrative Practice Letter \(APL\) Section I G.2 – Capital Assets](#)

6. What kinds of employee labor can be charge to a capital project?

Trade shop and Professional employees who are working directly on the capital project may charge their time to the capital project. These charges should be based on actual time spent on a project. Benefits are based on the current year Federal Benefit rate. Classified employees should **not** be charged to the capital project.

7. Can I set-up one maintenance project if it involves several buildings? What if it is a capital project?

One maintenance project can be set up for several buildings; however separate projects must be set-up for each facility if the work is capital related.

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8. At what point should I request that a project be created in PeopleSoft General Ledger?

A project should be requested at the point that:

- The Project has received been approved in accordance with System policy,
- Funding has been identified, and
- The project is likely to occur.

By creating the project when all of the above has occurred, the project can be considered in cash flow reports and in projecting depreciation expense for future years.

For additional information on project approvals and management see the Systemwide Facilities website. The web address is:

<http://www.maine.edu/construction/FacProcedures>

For additional information on creating a project see the Business Process Document “Requesting a Project - Completing the Project Create Form. The web address is:

<http://www.maine.edu/oft/psbprqp.pdf>

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9. What steps should be taken if project expenses exceed revenues?

Projects should be monitored continually by the project manager. Deficit balances, excluding encumbrances, on any capital projects must be resolved within 30 days. Campus management should be contacted about funding options. In some situations an internal loan from the System Office may be obtained to remedy the deficit.

For additional information on project budgets and project management please refer to the University of Maine Systemwide Services Facilities Management website located at:

<http://www.maine.edu/construction/02.0ConstProjMgmt.htm>

For information related to Interfund Borrowing (Internal Loans) see the following Documents:

APL Section III – C Interfund Borrowing at:

<http://www.maine.edu/oft/apl.html>

Business Process Document – Accounting for Internal Loans

<http://www.maine.edu/oft/psbpail.doc>