

A8.550 Capitalization

1. Purpose

To provide policies for capitalization of University of Hawaii assets.

2. Objectives

To establish capitalization policies to ensure conformity with Federal and State regulations, generally accepted accounting principles, and applicable laws.

3. Definitions

Equipment - Tangible non-expendable personal property having a useful life of more than one year, and an acquisition cost of \$5,000 or more per unit.

Controlled Property - Tangible personal property which is not capitalized and meets the following criteria: 1) Any firearms/weapons not classified as equipment (i.e., less than \$5,000 per unit) 2) property, regardless of cost, which is accountable to the University under the provisions of an extramural award or 3) theft sensitive personal property with a useful life of more than one year and an acquisition cost of at least \$1,000, but less than \$5,000 per unit. Theft sensitive property shall include:

- a. Fax machines
- b. Microscopes and balances
- c. Television sets, audiovisual recorders/players, cameras
- d. Computers, printers, monitors, scanners
- e. Works of art
- f. Other items determined by a program to be theft sensitive or have a high loss history

Real Property - Land including certain improvements thereto,

and buildings including appurtenances but excluding moveable equipment. (APM A8.552)

Capital Lease - Lease of a capital property where a material equity interest in the property is created as a result of significant cost incurred under that lease. A material equity interest in the property exists when the lease:

- a. is non-cancelable or is cancelable only upon the occurrence of some remote contingency, and;
- b. has one or more of the following characteristics:
 - (1) Title to the property passes to the University at some time during or after the lease period.
 - (2) The term of the lease corresponds substantially to the estimated useful life of the property (i.e., the period of economic usefulness to the legal owner of the property).
 - (3) The initial term is less than the useful life of the property and the University has the option to renew the lease for the remaining useful life at substantially less than the fair rental value.
 - (4) The property was acquired by the lessor to meet the special needs of the University and will probably be usable only for that purpose and only by the University.
 - (5) The University has the right, during or at the expiration of the lease, to purchase the property at a price which at the inception of the lease appears to be substantially less than the probable fair market value at the time it is permitted to purchase the property (commonly called a lease with a bargain purchase option), except for any discount normally given to educational institutions.

Leases under "sales and lease back" arrangements or "less-than-arms-length" transactions shall be considered capital leases.

Lease Improvement - Improvement made to leased property.

4. Applicability

These policies and procedures pertain to all purchases, transfers, and gifts to the University.

Equipment and controlled property shall be inventoried.

Subcodes shall be used to distinguish equipment from controlled property. Controlled property shall be coded in the 77X8 or 77X9 subcode format.

Acquisitions defined as equipment shall NOT be coded in the 77X8 or 77X9 subcode format.