



Policy for Capitalization and Inventory Control

(Approved by the President on April 1, 2003; Revised March 15, 2006)

I. PURPOSE

The purpose of this policy is to ensure proper capitalization and valuation of plant and related assets, and to control these assets to reduce to a reasonable level the risk of loss or misappropriation of resources or assets.

II. BACKGROUND

This policy has been developed to ensure compliance with BOR Policy VIII – 1.10 Policy for Capitalization and Inventory Control issued by the Chancellor June 19, 1989; approved by the Board of Regents June 9, 1995; revised July 7, 2000). This policy requires that each institution control capital equipment whose unit cost is \$5,000 or more, and those non-capital items identified by the institution as sensitive equipment.

III. DEFINITIONS

- A. For purposes of this policy, the UMBI defines a “unit” to include each of the centers and the central administrative offices.
- B. Real property is defined by BOR policy as land, building and building improvements, land improvements (other than buildings), infrastructure and construction in process.
- C. Significant additions, alterations, renovations or structural changes that extend the useful life or enhance the value of an existing building and exceed \$250,000 in cost are added to the recorded valuation of the building.
- D. Capital equipment is defined by BOR policy as software and all equipment not permanently affixed to buildings, has a useful life greater than one year, and has a unit cost of \$5,000 or more.
- E. Custodial equipment is defined by BOR policy as capital equipment physically located in a UMBI facility for which the University is not the owner. Custodial equipment should be included in inventory records and physical inventories, but not included for the purposes of financial statements.
- F. Sensitive equipment is defined by UMBI policy to include those non-capital items which can be easily converted to personal use or resale, is susceptible to removal, and/or must be controlled to meet external reporting requirements (reference UMBI Policy VIII – 1.10 (B) Policy on Sensitive Equipment).
- G. A unit of equipment is defined by BOR policy as an individual item, or group of items, which is usable for its intended function and which cannot be separated without a diminishment in the usability of the item for its intended purpose.

IV. POLICY

- A. Responsibilities of UMBI Units

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1. UMBI will establish standards for inventory control to include an approved asset management system. UMBI Comptroller's Office will establish asset classes, approve all new asset classes and define uses. The unit will maintain copies of source documentation on all assets for audit purposes.
2. Each unit head shall designate an individual at the unit who is responsible for ensuring compliance with the Board of Regents and UMBI policies with regard to capital and sensitive equipment control. This individual shall be responsible for establishing record keeping, tagging and reporting procedures within the unit, subject to suitable internal controls.
3. The responsibility for real property inventory records will be held by the UMBI Comptroller's Office. Each unit shall work with the comptroller's office to ensure that real property records are updated as necessary.
4. Each unit is responsible for maintaining inventory records on all capital and sensitive equipment within their custody. Excluded from this record-keeping responsibility is any equipment on loan from another unit that is maintaining the equipment in their file.
5. Each unit is responsible for updating the inventory records of all capital and sensitive equipment in their custody on a monthly basis. In addition, equipment acquired with restricted federal funds shall be separately noted.
6. Each unit is responsible for performing a bi-annual physical inventory, to be completed by August 31, of all capital and sensitive equipment. In addition, the results of the physical inventory shall be reconciled to the units' perpetual records. All differences shall be investigated and resolved within three months. Evidence of the physical inventory reconciliation and discrepancy investigation and resolution will be maintained by the Comptroller's office.
7. As of December 31 and June 30 of each year, each unit shall report the amount of capital equipment additions to the UMBI Comptroller's Office. This amount shall be supported by a listing of items added to the inventory record. Also, this amount shall be reconciled by the center to the general accounting system expenditures for that period.
8. Deletions from the capital equipment inventory record must be requested through the UMBI Comptroller's Office upon disposition of the item. The request shall include the reason for the item's removal and must be approved by the Center Director or designee who is not also an approver for inventory purposes. The central administrative units deductions must be approved by the Vice President for Operations and Finance or designee. All deletions of inventory records from the inventory record will be performed by the UMBI comptroller's office. (Disposal of surplus equipment is governed by UMBI Policy VIII-1.20).

B. Valuation

1. For equipment purchased, the valuation is the net amount paid less all discounts. Trade-in allowance is included in the asset value. Freight and installation costs are also included if they are shown on the original invoice or if amounts are readily available on related documents.

UMBI Policies and Procedures

2. Real property and equipment acquired by gift is recorded at fair market value at the date of acquisition. Centers will work with UMBI Comptroller's Office to obtain written valuation when gift is received.
3. Leased equipment is capitalized if it meets the criteria outlined in the BOR policy in accordance with FASB Standard No.13. [hyperlink to BOR policy]
4. The valuation of fabricated equipment includes all identifiable costs such as drawings, blueprints, component parts, materials, and supplies consumed in fabrication, labor and installation.
5. Equipment inventory records should also include items that meet the above specifications for which UMBI is the custodian rather than the owner. Ownership of this equipment must be identified in the inventory records. These items should be included in the inventory records for tracking purposes only and they are not to be reported in the financial statements.

C. Maintaining Records

1. Newly-received equipment must be tagged immediately after it is received on site. Each center or facility must designate an individual responsible for tagging equipment. This person may also update the inventory records.
2. Information in the approved inventory system must at a minimum include required fields as defined in inventory system's user's manual
3. A physical inventory must be performed by an individual who is independent of the tagging and record-keeping process for the inventory control records. When performing the physical inventory, the individual is looking for all capital and sensitive equipment items that currently exist at the center or facility. Documentation for the physical inventory taking shall include:

Name(s) of personnel responsible for the count:

Date(s) of the count:

Verification of the tag number of all items, and identification of all capital equipment that is untagged;

Location of the item;

Identification of equipment items that do not correlate to items on the inventory control listing;

Preparation of a list of all items found but did not appear on the list. These must be added to the list at acquisition value (and tagged, if necessary);

Preparation of a list of all items on the list that were not found. These items must be investigated further to determine why they are missing; and,

Preparation of a list of all items that appear to be damaged, not in use, or in storage. Ask responsible person what, if any, plans there are for the item(s).

APPROVED: Jennie C. Hunter-Cevera