

Policy Title	Capitalization & Depreciation Policy
Responsible University Office	The Controller's Office
Policy Owner	Financial Analysis and Reporting
Pertinent Dates	Origination Date: April, 1, 2011 Amended : July 23, 2019 Last Amended Date: September 12, 2021 Next Review Date: September 12, 2023

I. SCOPE OF POLICY

Depreciation is the systematic reduction in the recorded cost of a fixed asset. The only exception is land, which is not depreciated. The reason for using depreciation is to match a portion of the cost of a fixed asset to the revenue that it generates. The capitalization is threshold that define the point, in terms of costs, where the fixed asset recorded as high or low value and having a useful life of at least two years are treated as depreciable assets (fixed assets). This policy will assist the readers in understanding the means of both the depreciation and capitalization

II. DEFINITIONS

Term	Definitions
Acquisition Cost/Value	Value of an asset at the time it is acquired. May be the invoice price or, if donated, the fair market value. Also included are costs incurred to place the asset into service (examples: freight, installation).
Gift-in-Kind, Capital	Donation to the university of a tangible or intangible asset other than cash or securities that has a useful life of more than one year and a value of \$2,500 or more (\$50,000 or more for computer software).
Intangible Asset	Asset not having physical substance (examples: a patent, goodwill)
Depreciation Conventions and Guidelines	All depreciation and amortization calculations for financial statement purposes should use the "straight line" method. The addition of an asset will be recorded at the date of acquisition (put in service date). In the event of a disposal of an asset, depreciation on that asset will be recorded for the fiscal year of the asset's disposal up to date of disposal. The calculation of any gain or loss on disposal will include the effect of the depreciation for the year of disposal.
Low value Equipment/Furniture	Entered under these categories all non-expendable items, having a unit price equal to or less than the ceiling values \$2,500 or Equivalent in EGP, and a productive life of two or more years. Please note that orders more than one unit (from a similar item), where the total will exceed the threshold of US\$ 2,500 or Equivalent in EGP will be treated as major equipment/furniture.
Major Equipment/Furniture	<p>Major items of equipment and furnishings having a unit value that exceed \$2,500 or Equivalent in EGP. Please note that fixed assets, upon acquisition, will be capitalized immediately and will be subject to depreciation. Capital expenses increase departmental depreciation expenses for future fiscal periods.</p> <p>Moreover, furniture acquisition requests will not be processed without the approval of the Office of Facilities Planning.</p> <p>This policy applies to all university faculty and staff across the university in order to properly record items purchased by university, US Federal, and Private Sponsor funds.</p>
Special Collections	Works of art, rare books, historical treasures, or scientific specimens that are held for public exhibition, education, or research, rather than for financial gain. They are protected and preserved, and are subject to a formal policy that recommends that the proceeds of items sold be used to acquire other items for collections.
Capital Software (External Acquisition or Internally developed)	Capital Software either acquired from external software provider or internally developed must be capitalized if the cost exceeds \$ 50,000 per software program and with useful life of two years or more.
Disposition	Final status of an asset when it is removed from the inventory of assets and no longer physically located on-site (examples: sale, scrap, donation, transfer to another university, etc.).

III. **POLICY STATEMENT**

The policy is aimed at maintaining accurate records of capitalized assets. Items purchased by the university that have a significant cost and a useful life of two or more years are recorded as fixed assets (capitalized) and depreciated over their estimated useful lives in accordance with the university guidelines.

IV. **RESPONSIBILITIES**

AUC community, Audit teams, and Regulatory Bodies in both Egypt and United States

V. **POLICY STANDARDS AND PROCEDURES**

1. Treatment of Land

Land is capitalized at acquisition cost including assessments, legal and recording fees; realtor and appraisal fees, draining, filling, other site preparation costs; judgments levied from damage suits; demolition (razing) costs of structures on land acquired as building sites. Land acquired by gift will be capitalized at Fair Market or Appraised Value at the time of acquisition. The acquisition cost of property, which includes structures not to be razed (torn down), will be allocated between land and buildings based upon appraised values.

2. Treatment of Buildings

Acquisition by Purchase: Buildings acquired by purchase will be capitalized at acquisition cost with the purchase price and associated closing costs allocated between land and buildings on the basis of current appraised values. Additional costs incurred for the purpose of renovating or modifying the building structure in order to place it in service will also be capitalized. For renovations, betterments, or improvements that add to the permanent value of the asset, the improvements must fulfill at least one of the following criteria:

- The useful life of the asset is increased.
- The productive capacity of the asset is improved.
- The quality of units or services produced from the asset is enhanced.

Acquisition by Construction: Initial capitalization includes construction costs of the building structure, including all internal piping, wiring, and permanent fixtures (such as central air-conditioning) associated with the distribution of utilities within the building. Costs should also include architectural and engineering fees, inspection fees and permits, bid advertisement expenses, construction financing / interest expense, utilities, and insurance costs incurred during the construction period.

3. Asset Betterments:

In case of betterments made to any assets, the betterment must be capitalized and depreciated over the remaining useful life of the original asset. The asset number created for the betterment will be a sub-number under the asset number of the original asset.

4. Donated Fixed Assets / Gift in Kind

Donated fixed assets should be indicated by the receiving department. The development office sets an estimated market value to the asset and the asset is then capitalized. All direct costs such as transportation and installation are to be included when evaluating the fixed asset's value.

5. Asset Tags / Bar Code Tag

All fixed assets fall within the capitalization threshold and with a useful life of 2 (two) years or more will be identified by the University Fixed Assets System and tracked by the University Inventory control unit. This will be accomplished by attaching a pre-coded tag to each asset identifying it as "Property of The American University in Cairo".

The Inventory Control Policy and Procedures shall set the standards for tagging and tracking fixed assets. Please refer to the below link for further details:

<https://documents.aucegypt.edu/Docs/Policies/PROPERTY%20INVENTORY%20AND%20WAREHOUSE%20CONTROL.pdf>

6. Fixed Asset Inventory

To ensure that all capitalized assets have been properly recorded and tracked, the Inventory Control Unit will conduct an inventory of all fixed assets and the Fixed Assets Unit will reconcile the results of the inventory with University Accounting and Property Management records on a periodical basis.

7. Accounting for Asset Inventory

The timely and accurately reporting of asset disposals, transfers (between different departments or from and to the university warehouse), and moves will help ensure the accuracy of university's accounting records and reduce departmental time in reconciling and reviewing exceptions generated from the physical inventory. Additionally, timely depositing of sale or salvage proceeds is required.

Any moves of movable assets within a building, between buildings or to/from temporary or permanent storage are to be reported to the Inventory Control Unit immediately. In addition, if one department transfers an asset from one room to another, the transfer must also be reported.

8. Grant Funded Equipment

In situations where grant funds, whether private or US Federal Government are used to purchase equipment, policies of tagging and recording the equipment are the same as for assets purchased using university funds. University inventory records will reflect the funding agency so that internally and externally funded equipment can be separately identified.

9. Surplus Assets and Off-Campus Equipment

For property surplus and moving equipment off-campus please refer to the inventory control policies and procedures at the following link:

<https://documents.aucegypt.edu/Docs/Policies/PROPERTY%20INVENTORY%20AND%20WAREHOUSE%20CONTROL.pdf>

This is the main body of the policy and its accompanying procedures.

VI. FORMS/INSTRUCTIONS (if applicable)

The asset acquisition normally done through a purchase requisition on SAP. In special cases an external acquisitions can be done through payment requests directed to the controller's office – office of fixed assets. All forms are electronically built-in SAP

Inventory Control Policy and Procedures. Accountability and Responsibility for AUC Property.

Link:

<https://documents.aucegypt.edu/Docs/Policies/PROPERTY%20INVENTORY%20AND%20WAREHOUSE%20CONTROL.pdf>

VII. APPENDICES (if applicable)

Assets Estimated Useful life

Land	<ul style="list-style-type: none"> Not depreciable
Buildings purchase or construction	10, 15, 20, 30, or 50 years
Building Improvements	within the remaining useful life of the building

Improvements, and Infrastructure Other Than Buildings (such as Roads and Landscaping, Utility Tunnels and Conduits, Pipeline Energy System, Recreation Courts, Athletic Fields and Swimming Pools, and Land Improvements).	15-50 years
Construction in Progress	Depreciation does not begin until asset is placed in service.
<u>Equipment, Fixture, & Furniture</u> <ul style="list-style-type: none"> • Furnishings (Furniture and Fixture) • Low Value Furniture& Fixture • Major Equipment (Computing, Scientific, Appliances, Workshops, Photocopying and Printing, Cooling and Heating, Media, Agriculture, Other,). • Machines (Printing and Publishing, Workshop, Other Machinery) • Low Value Equipment 	<ul style="list-style-type: none"> • 8 years • Fully Depreciated at same Fiscal Year • 5 years <ul style="list-style-type: none"> • 5 Years • • Fully Depreciated at same Fiscal Year
<ul style="list-style-type: none"> • Vehicles (Passenger cars, Trucks, Buses, Tractors, Lorries, Loaders, Forklift, Motorcycle) • Low Value vehicles with Wheels 	<ul style="list-style-type: none"> • 4 years • Fully depreciated at same Fiscal Year
Library books and general acquisitions	<ul style="list-style-type: none"> • 10 years
Library Electronic Books & Reference Material that gives permanent accessibility to the library users (not for specific period)	<ul style="list-style-type: none"> • 10 years
<u>Rare Books Collections</u>	<ul style="list-style-type: none"> • Not depreciable
<u>Artwork and Historical Treasures</u>	<ul style="list-style-type: none"> • Not depreciable
<u>Software Systems</u> <ul style="list-style-type: none"> • Standard Computer Software, Hardware & Related Accessories. • Systems in Progress. 	<p>5 years</p> <p>Depreciation does not begin until placed into service (Go Live date)</p>

** All useful life determinations are subject to approval by the Controller's office.*

VIII. CONTACT INFORMATION

If you have any questions on the policy or procedure for [Capitalization & Depreciation Policy] policy, you may:

1. Call [Ahmed Fathy Badawy] at [2615-2331], or
2. Send an e-mail to [a_fathy@aucegypt.edu]