Document title: Capitalization & Depreciation Policy

Approval date: January 2020

Purpose of document: The objective of this policy is to define and describe a set of standard procedures necessary to record and control the university fixed asset in accordance with Generally Accepted Accounting Principles (GAAP). Fixed asset record master files are maintained by the Finance Department. This policy is to establish continuity in the procedures for recording, maintaining, and disposing of all capital and controllable assets. The fixed asset records are necessary to:

1. Ensure that the asset is adequately protected from loss, theft, etc.;
2. Provide necessary documentation for the effective use, maintenance, management and reporting of the asset;
3. Facilitate the calculation and recording of depreciation for fund assets; and
4. Provide necessary documentation for insurance purposes.

Office/department responsible: The University Controller’s Office

Approved by: Vice President for Finance & Chief Financial Officer

Document classification level: PUBLIC to all university departments

Document accessible: https://www.aucegypt.edu/about/university-policies

Document includes: Policy, and approvers

Related documents/see also: Property Inventory and Warehouse Control

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Capitalization & Depreciation Policy

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.

Reason for Policy/Purpose

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 deprecation and capitalization.

**Who Approved This Policy**

Approved by: Vice President for Finance & Chief Financial Officer

**Who Needs to Know This Policy?**

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

**Contacts**

Responsible University Official: Financial Analysis and Reporting

Responsible University Office: The Controller’s Office

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

1. Call; Ahmed Fathy Badawy at 2615-2331, or

2. Send an e-mail to a_fathy@aucegypt.edu

**Definitions**

<table>
<thead>
<tr>
<th>Term</th>
<th>Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Acquisition Cost/Value</strong></td>
<td>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).</td>
</tr>
<tr>
<td><strong>Gift-in-Kind, Capital</strong></td>
<td>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).</td>
</tr>
<tr>
<td><strong>Intangible Asset</strong></td>
<td>Asset not having physical substance (examples: a patent, goodwill)</td>
</tr>
<tr>
<td><strong>Depreciation Conventions and Guidelines</strong></td>
<td>All depreciation and amortization calculations for financial statement purposes should use the &quot;straight line&quot; 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</td>
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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** | 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. Moreover, furniture acquisition requests will not be processed without the approval of the Office of Facilities Planning. 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. |
| **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.). |

**Policy/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:

[Property Inventory and Warehouse Control](#)

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:

[Property Inventory and Warehouse Control](#)

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

**Forms/Instructions**

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
### Related Information

Inventory Control Policy and Procedures. Accountability and Responsibility for AUC Property.
Link: [Property Inventory and Warehouse Control](#)

### Appendices *(optional)*

### Assets Estimated Useful life

<table>
<thead>
<tr>
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<th>Estimated Useful Life</th>
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<tbody>
<tr>
<td>Land</td>
<td>Not depreciable</td>
</tr>
<tr>
<td>Buildings purchase or construction</td>
<td>10, 15, 20, 30, or 50 years</td>
</tr>
<tr>
<td>Building Improvements</td>
<td>within the remaining useful life of the building</td>
</tr>
<tr>
<td>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).</td>
<td>15-50 years</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>Depreciation does not begin until asset is placed in service.</td>
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#### Equipment, Fixture, & Furniture

- **Furnishings (Furniture and Fixture)**
  - 8 years
  - Fully Depreciated at same Fiscal Year
  - 5 years

- **Low Value Furniture & Fixture**
  - 5 Years
  - Fully Depreciated at same Fiscal Year

- **Major Equipment (Computing, Scientific, Appliances, Workshops, Photocopying and Printing, Cooling and Heating, Media, Agriculture, Other,).**
  - 5 Years
  - Fully Depreciated at same Fiscal Year

- **Machines (Printing and Publishing, Workshop, Other Machinery)**
  - 4 years
  - Fully depreciated at same Fiscal Year

- **Low Value Equipment**
  - 10 years

- **Vehicles (Passenger cars, Trucks, Buses, Tractors, Lorries, Loaders, Forklift, Motorcycle)**
  - 10 years

- **Low Value vehicles with Wheels**
  - Not depreciable

- Library books and general acquisitions
  - Not depreciable
### Artwork and Historical Treasures
- Not depreciable

### Software Systems
- Standard Computer Software, Hardware & Related Accessories.
- Systems in Progress.

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<tr>
<td><strong>Depreciation</strong></td>
<td>5 years</td>
</tr>
<tr>
<td><strong>Note</strong></td>
<td>Depreciation does not begin until placed into service (Go Live date)</td>
</tr>
</tbody>
</table>

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

### History/Revision Dates

- **Origination Date:** April 1, 2011
- **Last Amended Date:** Jan 29, 2020
- **Next Review Date:** January 2023