

**Equipment Purchasing Changes
and
New Equipment Threshold of \$5,000.**

**Changing the Capitalization Threshold for
Equipment
Questions and Answers**

***Reissued by: Electronics Research Laboratory
Berkeley Northside Research Group
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Effective July 1, 2004 the Sales and Use Tax rate for Alameda County has increased to 8.75%.

The "Ship to" Location in BFS has been updated to reflect this increase.

This new sales tax rate applies to goods shipped to Alameda County only.

This is to inform you how this tax increase will affect old charges still in the Update bluCard Transaction panel (the Staging Table) as of the 7/1/04 effective date of the new tax rate:

- If the seller charged the tax at the old rate AND it entered the Staging Table prior to July 1, the charge will be processed with the old rate (if you do not need to click on the use tax calculator for any reason).

- However, if the Seller DID NOT charge Sales Tax, and tax is applicable to the charge, you will have to pay the additional 1/2 % Use Tax.

bluCard Administration
643-8201
642-6803 fax

CONTACT LIST

If you have additional questions please contact one of the following:

Equipment management:

Mary Laverty, 2-2068 or mlaverty@berkeley.edu

Purchasing: David Kolsom, 3-5709 or
kolsom@uclink4.berkeley.edu

Accounting issues: General Accounting,
gao@berkeley.edu

UC BERKELEY

CHANGING THE CAPITALIZATION THRESHOLD FOR EQUIPMENT

QUESTIONS AND ANSWERS

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A. General

1. What is the change?

The University of California currently defines equipment as articles of non-expendable tangible personal property having a life of more than one year, and an acquisition cost of \$1,500 or more per unit. Effective July 1, 2004, the acquisition cost threshold will be increased to \$5,000.

2. Are any other asset categories affected by this change?

Yes. Any asset category with a current capitalization threshold of \$1,500, such as software, will also use the \$5,000 threshold beginning July 1, 2004.

3. Does the change apply to all types of equipment, such as fabricated equipment, furniture, art, special collections, etc.?

Yes. The new threshold will apply to all equipment items. Please note that this does not apply to library collections. There is no change to the capitalization threshold for library collections.

4. Why is the change needed?

There are two primary reasons for the change. One is to reduce the administrative costs of recording and tracking items of equipment. The reduction is needed, especially in these times of budgetary constraint. The second, and more compelling reason, is that by eliminating the requirement to record and track relatively low valued items, more attention and effort can be given to safeguarding the remaining, higher valued items.

This should enhance the University's overall control and stewardship of its assets and promote our compliance with external regulations and University policy and procedures. The University remains fully committed to the proper stewardship over all of its assets, regardless of its capitalization threshold.

5. What are the key points of the implementation plan?

The basic elements of the implementation plan are summarized as follows. For more detailed guidance or application to specific circumstances, see the rest of the questions and answers or contact the functional area representative listed at the end of this document.

Transaction Processing:

Effective July 1, 2004, all transactions of equipment items received on or after July 1, 2004 will be processed using the new threshold of \$5,000.

New accounts have been established on campus to record expenditures for any items with a useful life greater than one year with a unit cost of \$200 through \$1,499, and \$1,500 through \$4,999. The accounts will be used to apply the indirect costs at the \$1,500 threshold through June 30, 2006; to gather data required by the UC Budget Office for equipment funding by the State; and to calculate the additional capitalization for the phased-in implementation process required for financial reporting. Departments must take steps to ensure the proper use of these accounts. Improper use of these accounts may result in reduced funding by the State and may also result in audit comments or findings.

Purchase orders:

Procurement & Business Contracts will be providing further details in a separate campus communication to assist departments in handling this transition.

Indirect Cost Application:

During FY 2004-05 and FY 2005-06, indirect cost charges on extramurally funded projects will be applied using the same equipment threshold (\$1,500) as in FY 2003-04.

Beginning July 1, 2006, indirect costs will be applied to expenditures for items costing less than \$5,000, for items received on or after July 1, 2006.

Contracts and Grants -- Proposal Budgets:

Proposal budgets with projected expenditures for equipment items to be received on or after July 1, 2006 must budget for indirect costs at the new threshold. Since it may be difficult to precisely forecast the beginning date of projects and delivery dates for purchased equipment items, the campus has established a cut-off date of December 31, 2005, after which all project proposals submitted must prepare project budgets at the \$5,000 threshold. In any case, indirect costs will be applied at the \$5,000 threshold for all items received on or after July 1, 2006, without regard to the threshold used in preparing the project budget.

Equipment Management:

Effective July 1, 2004, newly received items with unit value of less than \$5,000 shall not be tagged, tracked, or physically inventoried, or otherwise required to be physically inventoried as explained in question 15.

Effective July 1, 2004, previously received items of equipment with unit acquisition value below \$5,000 will be exempt from physical inventory unless otherwise required (see question 15).

After July 1, 2004, but before December 31, 2004, we will delete the records of fully depreciated items with unit acquisition values below \$5,000 from their inventory. This process will occur annually until all items below \$5,000 currently on the inventory have been fully depreciated and removed from the inventory.

Financial Accounting:

Effective July 1, 2004, only items with unit acquisition value of \$5,000 or more per unit will be capitalized. Items capitalized in previous years, with unit acquisition value below \$5,000 shall remain capitalized until they are fully depreciated or disposed of. The process to write-off fully depreciated items below \$5,000 is further described in question 9.

B. Implementation

6. Why can't we implement all aspects of this change on July 1, 2004? Why must we delay implementation for grants and contracts?

Immediate implementation will reduce the administrative burden of tracking low-value items as soon as possible; however, a reasonable phase-in period is required for sponsored projects so that project budgets can be prepared to reflect the new threshold.

7. Must all campuses implement the change in the same way at the same time?

Yes. The University must maintain a uniform entity-wide capitalization policy to comply with Generally Accepted Accounting Principles (GAAP). In addition, because of the complex and interrelated requirements of plant accounting, extramural fund accounting, inventory management and proposal budgeting, the implementation plan must be uniform across all campuses. Specific implementation procedures may vary somewhat between campuses due to local systems differences; however, wide variations will increase the potential for audit findings in the transition years.

8. What determines the treatment of an equipment item during the transition in FY 2004-05: the date of the purchase order; the date of receipt; or the date of payment?

The date the equipment item is received determines how it will be treated. Items costing less than \$5,000 that are received on or after July 1, 2004 must be coded as supplies and materials using one of the accounts described below in question 21.

C. Equipment Management

9. Why can't the items acquired before July 1, 2004, with unit acquisition values below \$5,000 be removed from the inventory?

UCOP Financial Management in consultation with the University's auditor (PricewaterhouseCoopers - PwC) has determined that under GAAP, it is appropriate to adopt this change prospectively, rather than retroactively. Thus, it is necessary to keep the records of the previously acquired items with unit values below \$5,000 on the books until they are either disposed of, or fully depreciated. The process for removing these items from the inventory after they have been fully depreciated is described below:

- a. After July 1, 2004, but before September 30, 2004, UCOP will provide a list of fully depreciated items with unit acquisition values below \$5,000 to the campuses.
- b. The campus will write-off the items identified by UCOP and remove them from the inventory and the plant ledger. The write-off should be recorded as a disposal, without proceeds. The write-off must be completed before December 31, 2004 and reflected in the EFA100 file to be submitted in February 2005.
- c. This process will be repeated in each subsequent year for all items with unit values below \$5,000 that have been fully depreciated.

10. Don't federal regulations and University policy require that all items on the inventory be physically verified periodically?

Yes. As always, the University must ensure and exercise proper control and stewardship over its assets. Items on the equipment inventory must be physically verified periodically, at least once every two years, according to University policy and federal regulation.

The *Compliance Supplement* to the OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, defines equipment as follows:

Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year, and an acquisition cost of \$5,000 or more per unit. However, consistent with a non-Federal entity's policy, lower limits may be established.

The federal government sets the threshold at \$5,000 subject to institutional policy that may be set at a lower level. By setting its threshold at \$5,000, UC will be in compliance with the federal threshold. The items with unit value of less than \$5,000 remaining on the inventory during the transition process should not affect the University's compliance with inventory verification requirements.

Normally, the inventory will consist only of items valued at or above the established capitalization threshold. However, during the next several years, items with unit acquisition value below \$5,000, will remain on the inventory due to the prospective nature of this threshold change. The physical verification requirement for these items is being waived to reduce the administrative burden associated with these relatively low value items.

The waiver is also consistent with the change in the threshold, where new items below \$5,000 acquired after June 30, 2004 will not be capitalized or inventoried. This waiver is applicable only during the transition period. Over the next several years, all items with unit values below \$5,000 will be permanently removed from the inventory when the items have been fully depreciated

11. What process should be used to remove (write-off) the fully depreciated assets (of items acquired before July 1, 2004, with unit acquisition value between \$1,500 and \$5,000)?

The write-off should be processed as a disposal, without proceeds. Items will be removed from the BETS records using disposal code 86.

Equipment Management will supply departments annually with a listing of those items dropped.

12. Will this change affect the excess salvage and supply process?

Items under \$5,000, destined for Excess, Surplus and Salvage will still require an Equipment Inventory Modification Request (EIMR) for item pickup and final disposal by the salvage unit.

13. Can we track items below \$5,000?

The non-inventorial module of the new web based Berkeley Equipment Tracking System (BETS) will allow departments to track items below the \$5,000 threshold. Equipment management will be issuing further guidelines on tracking items below \$5,000

14. We are expecting an ONR audit in FY 2004-05. How will this affect the audit?

The new equipment threshold of \$5,000 will apply beginning July 1, 2004 for audit and physical verification purposes. BUS-29 will be reissued to reflect this change as soon as possible. ONR auditors conducting equipment audits should be advised of the change in the threshold.

15. What if the terms of a sponsored project define inventorial equipment to include items costing less than \$5,000? Or if the campus is locally tracking items with unit acquisition values less than \$5,000, such as “theft sensitive” items?

If the terms of a sponsored agreement define equipment at a value less than \$5,000 and title vests in the University, such items should not be treated as inventorial equipment. If the terms of the sponsored agreement for such items provide for title to be retained by the sponsor, such items should be treated as inventorial equipment under the exception given in BUS-29, Section A, Paragraph VI.A. However, these items will not be reported in the annual EFA100 file.

Campus inventory systems facilitate University compliance with two sets of requirements. One set of custodial obligations pertains to equipment as defined by the University. The University also has custodial obligations for other property items, independent of the University’s definition of equipment. For example, the University is often contractually required to track and report property owned or loaned by an outside entity, regardless of the item’s cost. UC Berkeley must meet both sets of obligations. This Q&A document is primarily concerned with the impact of the threshold change on the treatment of equipment. Other property items such as theft sensitive and sponsor owned items requiring special treatment are described in BUS-29, Section A.VI.A.

See question 18 for application of indirect costs in project budgets and for billings to sponsors.

D. Contracts and Grants

16. How should proposal budgets be prepared?

Expenditures for equipment items with unit cost of \$1,500 or more, projected to be received before July 1, 2006 shall be included in the equipment portion of the project budget and will be excluded from the Modified Total Direct Cost (MTDC) base to which indirect cost rates are applied. Items costing less than \$1,500 will be included in the materials and supplies budget category and included within the MTDC base for which indirect cost rates are applied.

Expenditures for equipment items with unit cost of \$5,000 or more, projected to be received on or after July 1, 2006 will be included in the equipment portion of the project budget and will be excluded from the MTDC base to which indirect cost rates are applied. Items costing less than \$5,000 will be included in the materials and supplies budget category and included within the MTDC base to which indirect cost rates are applied.

Since it may be difficult to precisely forecast the beginning date of projects and delivery dates for purchased equipment items, the campus has established a cut-off date of December 31, 2005, after which all project proposals submitted must prepare projects budgets at the \$5,000 threshold. In any case, indirect costs will be applied at the \$5,000 threshold for all expenditures for equipment items received on or after July 1, 2006, without regard to the threshold used in preparing the project budget.

17. How will the new threshold be applied to determine the amount of indirect costs to be charged to contracts and grants in FY 2004-05, 2005-06, and 2006-07?

The campus Extramural Fund Accounting Office should apply indirect costs using the \$1,500 threshold during FY 2004-05 and 2005-06 by using the appropriate accounts identified in question 21. Beginning July 1, 2006, the \$5,000 threshold will be used to assess indirect costs.

18. If the sponsor defines equipment using a lower threshold than the University, and takes title to equipment so defined, at what level will indirect costs be applied in the project budget? In the billings to the sponsor? And how should these items be treated for inventory purposes?

Beginning July 1, 2006, indirect costs will be applied to the University threshold of \$5,000, not the sponsor's lower value in project budgets and in billings to sponsors unless the sponsor specifically requires the application of indirect costs at the lower threshold.

19. What will happen under State agreements?

No special treatment is required for awards received from State of California agencies. If individual state agreements define equipment using a lower threshold than \$5,000, the provisions described in questions 10, 15 and 18 should be applied.

20. Can general office equipment now be purchased with federal funds, assuming that the item costs less than \$5,000?

No (under ordinary circumstances). OMB Circular A-21 places restrictions on purchases of both general office equipment and general office supplies as direct charges.

Under unusual circumstances, items that would normally be considered general office supplies or general office equipment are necessary for the operation of a sponsored project. In such circumstances, it is recommended that these items be specifically identified in the proposal budget, that the rationale for such items be provided, and that the budget documentation be retained so that it is clear to auditors that both the sponsor and the University were aware of the planned expenditure.

E. Accounting

21. What financial accounting changes will occur beginning in FY 2004-05?

Financial accounting changes will occur beginning in FY 2004-05 as a result of the new definition of equipment.

New accounts will be required in addition to the change in the definition of equipment.

Inventorial – Items =>\$5,000

54110 Equip-Computer =>\$5k

54210 Equip-Other =>\$5k

54212 Office Furniture =>\$5k

54214 Special Coll (excl Lib) =>\$5k

54216 Sporting Goods/Equip =>\$5k

54231 Fabricated Equip =>\$5k

54243 Software =>\$5k<\$10M

Non-inventorial-Items =>\$1,500<\$5k

55221 Equip-Computer =>\$1,500<\$5k

55321 Fabricated Equip =>\$1,500<\$5k

55322 Office Furniture =>\$1,500<\$5k

55323 Sporting Goods/Equip =>\$1,500<\$5k

55329 Equip-Other =>\$1,500<\$5k

55324 Special Coll (excl Lib) =>\$1,500<\$5k

56024 Software =>\$1,500<\$5k

Non-inventorial – Items =>\$200<\$1,500
55211 Equip-Computer =>\$200<\$1,500
55311 Fabricated Equip =>\$200<\$1,500
55312 Office Furniture =>\$200<\$1,500
55313 Sporting Goods/Equip =>\$200<\$1,500
55314 Special Coll =>\$200<\$1,500
55319 Equip-Other =>\$200<\$1,500
56023 Software =>\$200<\$1,500

Non-inventorial – Items <\$200
55201 Equip-Computer <\$200
55301 Fabricated Equip <\$200
55302 Office Furniture <\$200
55303 Sporting Goods/Equip <\$200
55304 Special Coll <\$200
55309 Equip-Other <\$200
56022 Software <\$200

22. What additional financial accounting changes will occur in FY 2006-07?

Beginning July 1, 2006, Extramural Fund Accounting will assess indirect costs to contracts and grants at the \$5,000 threshold.

Further Information - Contacts

23. If I have additional questions, whom should I contact?

Please contact the appropriate UCB functional representative listed below:

Equipment management: - Mary Laverty (642-2068) mlaverty@berkeley.edu

Purchasing: David Kolsom, Procurement & Business Contracts Manager -
kolsom@uclink4.berkeley.edu

Accounting issues: General Accounting – gao@berkeley.edu

Sponsored awards: appropriate Sponsored Projects Office Research Administrator -
<http://www.spo.berkeley.edu/Pages/About/Staff.html>

General information: General Accounting - gao@berkeley.edu.