

# **SAGRADO**

Universidad del Sagrado Corazón

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Universidad del Sagrado Corazón

Accounting Guidelines for Capitalization of Capital Assets

Effective Date: July 1, 2025

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## Table of Contents

|                                                                 |   |
|-----------------------------------------------------------------|---|
| I. PURPOSE AND USE OF THIS DOCUMENT.....                        | 3 |
| II. DEFINITIONS AND PRINCIPLES.....                             | 3 |
| a. Capital Asset .....                                          | 3 |
| b. Unit Definition.....                                         | 3 |
| c. Capital Improvement Project.....                             | 4 |
| d. Preliminary Stage Costs .....                                | 4 |
| e. Donated or Grant-Funded Assets .....                         | 4 |
| IV. ACCOUNTING GUIDELINES.....                                  | 5 |
| a. Capitalization of Individual Units .....                     | 5 |
| b. Capitalization of Capital Improvement Projects.....          | 5 |
| c. Construction in Progress .....                               | 5 |
| V. COMPLIANCE AND REVIEW.....                                   | 6 |
| Appendix A: Standard Useful Life Estimates by Asset Class ..... | 7 |

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Universidad del Sagrado Corazón

## I. PURPOSE AND USE OF THIS DOCUMENT

The Universidad del Sagrado Corazón (USC or “the University”) uses these guidelines to establish accounting procedures and thresholds for the capitalization of property and equipment (capital assets). These include the acquisition, improvement, or construction of:

- Land and buildings (purchased or constructed)
- Fixed and movable equipment
- Furniture and fixtures
- Vehicles
- Library holdings
- Renovations or betterments to property owned or leased by the University

These guidelines apply to all University personnel involved in the acquisition, management, or accounting of capital assets. This document is aligned with Generally Accepted Accounting Principles (GAAP) and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR Part 200).

## II. DEFINITIONS AND PRINCIPLES

### a. Capital Asset

Capital assets represent tangible property and equipment with a useful life of more than a year that meets or exceeds the University's capitalization threshold. An asset can be a piece(s) of equipment that, when assembled, functions as a stand-alone unit, or an enhancement to an existing asset contributing to its performance and/or useful life. The capitalization threshold is the dollar amount at which a long-lived asset (useful life of greater than one year) is treated as a capital asset rather than as an expense. Capital assets remain on the statement of financial position (also known as the balance sheet) as an unexpired cost that is reduced each reporting period by a depreciation expense, based on its value and useful life.

### b. Unit Definition

A "unit" is defined as a piece(s) of equipment, furniture, fixture, software, vehicle, library books or improvements that, when assembled, functions as a stand-alone asset, or is an enhancement to an existing asset. For example, a unit would be one chair, one computer, one desk, etc. The unit cost shall include all costs incurred to bring the asset to the condition and location necessary for its intended use. It can include freight, sales taxes, installation costs and initial accessories that are needed to achieve the full functionality of the assets. Generally, these other costs are purchased at the same time as the asset. Training, warranty, and service plan costs associated with the unit do not extend the useful life of the asset and therefore shall be expensed and not be capitalized.

# SAGRADO

Universidad del Sagrado Corazón

## **c. Capital Improvement Project**

A formally approved initiative that involves the renovation, betterment, construction, or major overhaul of a facility or system. These projects must be:

1. Approved as part of the University's annual Capital Expenditure (CAPEX) budget; or
2. Approved during the fiscal year by the University President; and
3. Have an aggregate cost of \$25,000 or more to qualify for capitalization.

For purposes of these guidelines, capital improvement projects are defined as those capital projects determined by the Operations Vice Presidency, Chief Financial Officer and approved by the Board of Trustees as part of the University's institutional capital expenditure (CAPEX) annual budget. It also includes new capital projects created during the fiscal year approved by the President. Capital improvement projects include projects involving renovations, betterments, reconstruction or construction of facilities or major overhaul to existing equipment. Replacement of equipment is not considered a capital improvement project. Accordingly, assets acquired to replace other assets will be evaluated individually when measuring the capitalization threshold.

## **d. Preliminary Stage Costs**

The first stage during which costs are incurred related to capital projects is the preliminary stage. During the preliminary stage, activities are performed exploring the opportunities for acquisition or construction of a capital asset. Some examples of costs that may be incurred during this stage include those related to surveying, zoning, engineering studies, design layouts, traffic studies, and obtaining management's approval to move forward with a particular capital asset acquisition or construction. The preliminary stage commences at the beginning of a project and lasts until the acquisition or when construction of the specific long-lived asset is considered probable, as defined by having met the following conditions: (1) management, having the requisite authority, has implicitly or explicitly authorized and committed to funding the acquisition or construction of a specific asset, (2) the financial resources are available consistent with such authorization, and (3) the ability exists to meet the necessary local and other governmental regulations.

During the preliminary stage, the costs incurred during this stage are not capitalizable because the project is not considered probable (as defined above) of being acquired or constructed. Accordingly, given the high degree of uncertainty about the future economic benefits, costs incurred during this stage are expenses as incurred.

## **e. Donated or Grant-Funded Assets**

Donated assets are recorded at their fair market value at the date of donation if they meet capitalization thresholds. Assets acquired with federal or restricted grant funds are subject to use, disposition, and title requirements under 2 CFR Part 200.

### III. CAPITALIZATION THRESHOLDS

The University applies the following capitalization thresholds:

| Asset Type                       | Capitalization Criteria                                                         |
|----------------------------------|---------------------------------------------------------------------------------|
| Individual Equipment / Furniture | \$5,000 or more per unit + useful life > 1 year                                 |
| Capital Improvement Projects     | \$25,000 or more in total aggregate project cost                                |
| Library Books                    | Pooled or capitalized individually if valued at \$5,000 or more                 |
| Construction in Progress         | Accumulate until completion, then reclassify to the appropriate asset category. |

### IV. ACCOUNTING GUIDELINES

#### a. Capitalization of Individual Units

A unit (e.g., one chair, one laptop, one printer) is capitalized if the cost is \$5,000 or more, and it functions independently or enhances an existing capital asset. Installation, freight, and taxes directly attributable to bringing the asset into service may be included in the capitalized amount. Warranty, training, and service plans are expenses.

#### b. Capitalization of Capital Improvement Projects

Projects approved through CAPEX or by the President during the year with a total aggregate cost of \$25,000 or more are capitalized. When this threshold is met, all components of the project are capitalized, even if individual items are under \$5,000.

Example 1: The University purchases lab instruments as part of a \$30,000 renovation project approved in the CAPEX plan. Individual instruments cost \$3,000 each.

→ All instruments are capitalized as part of the project.

Example 2: The University purchases five tablets at \$1,200 each to replace old units. This is not part of a renovation or improvement project.

→ Tablets are expenses.

Example 3: A \$40,000 HVAC system upgrade includes installation, ductwork, and major components.

→ The entire cost is capitalized under Building Improvements.

#### c. Construction in Progress

All construction costs associated with an approved capital improvement project that meets or exceeds the capitalization threshold are accumulated and capitalized as construction in progress. Once the project is completed and the facilities are ready for their intended use, the

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Universidad del Sagrado Corazón

costs recorded as construction in progress must be reclassified to the respective asset category and depreciated based on the estimated useful life of the respective asset category.

#### **d. Depreciation Methodology**

Capital assets, once placed into service, are depreciated on a straight-line basis over their estimated useful lives. The University applies the half-year convention, meaning depreciation begins at mid-point of the fiscal year in which the asset is placed in service, regardless of actual acquisition or service date.

#### **e. Asset Disposal and Retirements**

When a capital asset is sold, disposed of, or permanently removed from service, its original cost and accumulated depreciation are removed from the records. Any resulting gain or loss is recognized in the financial statements.

#### **f. Physical Control and Inventory**

All capital assets must be tagged upon acquisition and recorded in the University's fixed asset system. The University conducts periodically a physical inventory of capital assets to confirm existence and condition.

## **V. COMPLIANCE AND REVIEW**

These guidelines are effective as of July 1, 2025, and shall be reviewed periodically to ensure compliance with accounting standards and federal regulations. Any ambiguity should be discussed with the Chief Financial Officer.



Karla Aguirre Astacio

Chief Financial Officer

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Universidad del Sagrado Corazón

## Appendix A: Standard Useful Life Estimates by Asset Class

| Asset Category                           | Useful Life (Years) |
|------------------------------------------|---------------------|
| Buildings and Building Improvements      | Up to 40            |
| Equipment (including computer equipment) | 5–20                |
| Furniture and Fixtures                   | 5                   |
| Vehicles                                 | 5                   |
| Library Books                            | 10                  |
| Software (if capitalized)                | 3–7                 |