**Purpose: To provide authoritative resources and guidance for the capitalization of fabricated equipment.**

**Authoritative Resources:**

1. **North Carolina Office of the State Controller(OSC)**

According to the North Carolina Office of the State Controller (OSC), the term ‘capital asset’ refers to property, such as land, land improvements, easements, buildings, equipment, works of art and historical treasures, and infrastructure, with a cost equal to or greater than $5,000 and a useful life of two or more years. Capital assets are acquired for use in normal operations and are not for resale.

1. **UNC Business Process Standards-Capital Assets 2016**
	1. **Guidance**
2. Federal
	1. OMB Circular A-110
	2. OMB Circular A-21
	3. OMB Uniform Guidance

2. State

a. The North Carolina Office of the State Controller’s Policies and Procedures

b. The State of North Carolina Budget Manual – Office of State Budget and Management

c. The North Carolina Department of Administration - State Construction Manual

d. The State of North Carolina – Statewide Information Security Manual

**Definitions, Terminology, Recognition:**

**Capitalization:** The process for recognizing a capital asset in the financial statements.

1. The cost must equal or exceed $5,000 **and**
2. have a useful life greater than 1 year.

**Recognition and Safeguarding Asset:**

1. Charge purchase to an asset account (55XXX).
2. Adding the purchase/donation to the Asset Management System (physical process of Capitalization)
	1. Examination of Voucher
	2. Physical Examination
	3. Verify Cost
	4. Assignment of Location
	5. Assignment of Responsible Person
	6. Tagging
3. Tracking
4. Reconciliation of Assets per Asset Management system to General Ledger (AM to GL)
	1. Safeguarding the Asset
	2. Annual Physical Inventory

**Estimated Useful Life**: an accounting estimate determining how long an asset will be used or in usable condition.

**Fabricated Equipment:** Fabricated equipment is defined as scientific or other complex equipment comprised of two or more individual components that are fabricated/built into a single functional unit***.*** Fabricated equipment is capitalized as a single asset when its combined total cost equals or exceeds $5,000 and has a useful life of two or more years.

1. Fabrication **does not** apply to components that are simply wired together and can be dismantled to operate separately (for example, IT components such as computers and network equipment).
2. All components in the fabrication must function as a **singular** unit and be collectively disposed of at the end of the fabricated asset’s useful life.
3. Individual components of a fabrication **cannot**
	1. be used independently of the other components or
	2. function separately apart from the fabricated unit to which it is attached.

**Capitalization of Repairs or Renovations:** the process for recognizing repair or renovation changes to a capital asset in the financial statements.

1. Repairs or renovations must equal or exceed $5,000
2. and have a useful life of 2 or more years, and either
	1. significantly extends the useful life of the original asset, or
	2. b) increase the future service potential of the asset.

**Fabrications- Additional Info**

* 1. Tangible Fabricated Items
		1. Assets that are built by combining parts and materials at the department level are considered tangible fabricated items. Any fabricated item that works as one asset is subject to capitalization if the following criteria have been met:
			1. Because of the experimental nature of fabricating equipment, a fabrication must be complete and usable at the time of capitalization.
				1. The sum total of the fabrication should not include (1) any charges for parts not used in the final fabrication of the asset or (2) allocation of department labor cost, except when specifically billed by an internal service center or service contractor for direct work on the fabrication.
			2. The sum total of all parts and services used in the final fabrication is greater than or equal to the established capitalization threshold.
			3. After the fabricated item is capitalized, future upgrades and additions can be added as a separate capital asset item, but the base form and use of the fabrication must be initially complete to capitalize.
		2. It is the fabricating department’s responsibility to track the cost of the fabrication and, if the fabrication meets the capital criteria, to report the equipment to the *Capital Assets Group.* The *Capital Assets Group* will prepare a tag for the newly fabricated equipment.
		3. Items that are put together as one asset but use separate parts that are interchangeable and can be reconfigured to another form such as modular work stations or cubical office installations are generally not capitalized but under certain situations maybe. The university should describe their policy over capitalization of modular work stations or cubicle office installations in their capital asset policies and procedures (see Initiation/Acquisition – Buildings, section 4.m for more information).
			1. The fabrication must have a useful life of at least two years after completion to be considered capital in nature.

**System Resources for Reconciliation & Preparing Fabrication Request Packet**

1. PI Portal-Research Adm
	1. PMR
	2. Expenditures
	3. Equipment
2. Financial Systems>Journal and Chartfield Maint>Project Maint & Inquiry
3. WRS (General Ledger)
	1. P1-Financial Balances by Project
	2. Drill-down

**Note: Fabrication Tag Request example worksheet Fab\_Tag\_Req\_Example**



