

Property Services



Accounting for Capital Equipment

February-March 2019

Overview



- Most Common Equipment Expenditure Types
- Types of Transactions & Support Documentation
- Equipment Definitions
- Equipment Ownership
- Selecting the Correct Equipment Expenditure Types
- Fabrications vs. Deliverables
- Equipment Upgrades vs. Repairs and Maintenance
- Equipment Leases vs. Rental of Equipment
- Microelectronic Chips
- Supplies and Other Internal Charges

Choices of Expenditure Types



- Equipment-Caltech (Caltech asset)
- Equipment-Govt (Government asset)
- Equipment-Other (non-Caltech, non-federal government asset)
- Leased Equipment (for capital lease)
- Rental of Equipment MTDC (for operating lease)
- Equipment Maintenance (not an asset)
- Supplies Allocable (for non-capital expenses)

Choices of Expenditure Types



- Supplies Unallocable
- Microelectronic Chips
- Other Internal Charges / WIC

Link to a more comprehensive list of expenditure types:

http://finance.caltech.edu/documents/511-expenditure_type_matrix_for_sponsored_awards.pdf

Types of Transactions



- Purchased or Donated Equipment
 - Equipment-Caltech
 - Equipment-Govt
 - Equipment-Other Owned
- Fixed Equipment (attached to building /structure)
- Equipment Fabrications & Deliverables
- Capital Equipment Lease
- Equipment Rentals (non-capital)

Support Documentation



What kind of documents are needed to support the purchase of equipment?

Support Documentation



- Purchase Requisition (or equivalent approval document)
- Request for Bid or Sole-Source Justification
- Purchase Order or Purchase Contract
- Proof of Receipt of Items Purchased
- Invoice
- Proof of Payment (e.g., copy of check payment)

Support Documentation



- Who keeps the original support documents?
- How long are the original documents required to be kept at Caltech?
- Is a vendor's quotation considered adequate support documentation?

Support Documentation



Invoices: Information on the invoice needs to clearly show what line items are capital equipment.

- If the invoice includes both capital and non-capital items then the invoice needs to show which line items are capital equipment and which are not.
- If the invoice includes more than 1 capital equipment item, then the invoice needs to show which line items are associated with each capital equipment.
- If this information is missing, the vendor should be requested to send a revised invoice; otherwise, the purchasing department will have to provide that information.

Support Documentation



Invoices: Information on the invoice needs to clearly show what line items are capital equipment.

- If the invoice line items combine equipment items that are not the same or did not cost the exact same amount:
 - The information needs to be split out by line and documented so that it is clear what the cost is for each asset in order for the assets to be properly recorded in Oracle Fixed Assets.

Support Documentation



Invoices: Information on the invoice needs to clearly show what line items are capital equipment.

- If this information is missing, the vendor should be asked to send a revised invoice; otherwise, the purchasing department will have to provide that information.

Equipment Definition



Caltech's Definition of Capital Equipment

A capital equipment is movable item which has a cost that meets the following criteria:

1. An acquisition cost of \$5,000, or more, **AND**
2. A useful life of more than one year, **AND**
3. A stand-alone item (fully functional on its own, and not attached to a structure to function properly)

** Examples and exceptions will be discussed later

Equipment Definition



2 CFR 200.33 (Uniform Guidance)

Equipment means tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes, or \$5,000

Equipment Definition



2 CFR 200.48 (Uniform Guidance)

General purpose equipment means equipment which is not limited to research, medical, scientific or other technical activities. Examples include **office equipment** and furnishings, modular offices, **telephone networks**, **information technology equipment and systems**, etc.

****Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except with the prior written approval of the Federal awarding agency or pass-through entity. See 2 CFR 200.439**

Equipment Definition



FAR 52.245-1

Equipment means a tangible item that is **functionally complete** for its intended purpose, durable, nonexpendable, and **needed for the performance of a contract**. Equipment is not intended for sale, and **does not ordinarily lose its identity or become a component part of another article when put into use**. Equipment does not include material, real property, special test equipment or special tooling.

Equipment Definition



Acquisition Cost

Includes the following: Invoice amount, sales tax, freight/shipping costs, installation costs, costs for the initial complement of supplies needed to place the asset into service, accessory and auxiliary apparatus necessary to make it usable for the purpose for which it was acquired; less trade or trade in discounts and/or educational allowances.

Excludes the following: Federal Excise tax, duty, insurance, maintenance and warranty costs

Equipment Definition



Useful Life

If the item will not have a **useful life of more than one year**, or the upgrade does not extend the useful life of the asset being upgraded by more than one year, it is considered expendable material, even if it costs more than \$5,000.

****Equipment Upgrades will be discussed later in this presentation.**

Equipment Definition



Stand-alone

The equipment is not permanently attached to or integrated into a building or structure. The equipment operates independently of other equipment (a.k.a. functionally complete).

Note: Equipment attached to a structure for stability or earthquake proofing may be considered as stand alone equipment

Equipment Definition



Stand-alone Equipment Example

Incubator (New Brunswick) Model 170S

Item Cost \$5,352.13

Installation Cost \$255.01

Taxes \$532.67

Total Acquisition Cost \$6,139.81

Useful life – More than one year

Stand-alone

Equipment Definition



Non-Stand-alone Equipment Example

Walk-in Refrigerator (ThermalRite)

Item Cost - \$20,556.80

Total Acquisition Cost - \$20,556.80 plus taxes, shipping and installation.

Useful life – More than one year

Stand-alone – No. The walk-in refrigerator is integrated into the room's walls (considered building improvements, capitalization threshold = \$100K)

Equipment Definition – Special Cases: JPL



JPL Funded Equipment Acquisitions

- JPL funded equipment and sensitive assets are subject to an annual inventory. JPL Property Staff work directly with the Caltech lab staff to conduct the inventory
 - JPL requires that all equipment with an acquisition cost of \$1,000, or more be controlled (i.e. tagged and tracked)
 - In addition, JPL requires Caltech tag and track all equipment with an acquisition cost between \$100 - \$999.99 that are considered as “sensitive” equipment.

**“Sensitive property” means property potentially dangerous to the public safety or security if stolen, lost, or misplaced, or that shall be subject to exceptional physical security, protection, control, and accountability. Examples include weapons, ammunition, explosives, controlled substances, radioactive materials, hazardous materials or wastes, or precious metals. FAR 45.101

Equipment Ownership – Special Cases: JPL



JPL Funded Equipment Acquisitions

- Property Services help with some inventory logistics and in addressing issues that may arise from the inventory.
- Property Services tags and collects equipment related information i.e. descriptions, models, serial numbers, locations, etc. and forwards that information to JPL Property Group. JPL Property staff enters the information into JPL equipment tracking database.

Note: If any JPL funds are being used to purchase items (even if JPL is not the major source of funding) then the item will be government owned and JPL threshold will apply

JPL Sensitive Items (Not Comprehensive)



- Binoculars
- Calculators
- Printers
- CD-Rom units
- Tape recorders
- Fax machines
- Modems
- Monitors
- External disk drives
- Cameras (video, still, movie, digital)
- Projectors
- Dictation units
- Telephones (cellular, cordless, non-cellular, portable)
- Typewriters
- Microscopes
- Scanners

See link below for full list:

<http://finance.caltech.edu/documents/124-jplsensitiveitemslist.pdf>

Equipment Definition – Special Cases



Non-Federally Funded Equipment Acquisitions

The definition of capital equipment is the same, however the capitalization threshold may be different from Caltech's.

For example:

Japan Science and Technology's (JST) capitalization threshold for FY17 was \$3,300. Any nonexpendable, tangible personal property having a useful life of more than one year is JST owned is to be tagged and reported annually to JST.

Please check with Property Services or Office of Sponsored Research for questions regarding equipment capitalization or ownership questions.

Equipment Ownership



Equipment Ownership is normally disclosed in the award or funding agreement.

- Caltech Owned: Caltech holds title to the equipment, regardless of source of funding used to purchase the equipment. Includes transfer of title from the federal government to Caltech (use Equipment-Caltech)
- Government Owned: Federal Agency holds title to the equipment (use Equipment-Govt).
- Other Owned: Organizations other than federal agencies or Caltech holds title to the equipment (use Equipment-Other)

Equipment Expenditure Types



- Use the “**Equipment-Caltech**” expenditure type if:
 - Caltech will have title to the asset, AND
 - Unit cost is \$5,000 or more (including freight and tax), AND
 - Item has a useful life of more than one year, AND
 - Item is a stand alone asset

Equipment Expenditure Types



- Use the “**Equipment-Govt**” expenditure type if:
 - The Government retains title to assets over \$5,000, AND the additional equipment criteria are met
 - OR**
 - The Government retains title to items under \$5,000, AND the additional equipment criteria are met (typically included on awards from National Laboratories e.g. Lawrence Livermore, Lawrence Berkeley, Los Alamos, Sandia, Argonne National Laboratories,)
 - OR**
 - The item does not meet the Caltech or Government threshold **BUT** appears on the list of ‘sensitive’ items that need to be tracked (again, typically included on National Laboratory awards)

Equipment Expenditure Types



- Use the “**Equipment–Other Owned**” expenditure type if:
 - The non-federal sponsoring agency retains title to assets over \$5,000, AND the additional equipment criteria are met
 - OR**
 - The non-federal sponsoring agency retains title to items under \$5,000, AND the additional equipment criteria are met
- Example CARA, JST, CALTRANS, etc.

Fabrications



- Equipment expenditure types should not be used on fabrications
 - Technically, a component purchased for a fabrication is not a stand alone asset therefore it doesn't meet the definition of equipment
 - In practical terms, using equipment expenditure types on fabrications impacts Caltech reporting to agencies
- Charges hitting a fabrication PTA are generally not burdened except for instances where the fabricated equipment is a deliverable.

Fabrications



- Allowable Expenses for Fabrications Must be Integral to the Construction of the Fabrication are Limited to the Following:
 - Salaries and wages of non-academic Caltech staff (*e.g.*, engineers and technicians) working directly on the fabrication
 - Shop Labor
 - Materials and supplies
 - Individual items of capital equipment (as defined in the Caltech Property Manual) that will be incorporated into the fabrication
 - Shipping and transportation charges
 - Travel only directly related to installation of the fabricated equipment
 - Subawards for components that will be incorporated into the fabrication

Fabrications



- Example of Costs Not Allowed on Fabrications Include, but are not Limited to the Following:
 - Academic personnel labor costs (*e.g.*, salaries for faculty, graduate research assistants, postdocs, senior research associates)
 - Books, periodicals, memberships
 - Computer maintenance and repair
 - Copying and fax usage
 - Entertainment
 - Equipment maintenance and repair
 - Facility rental
 - Food

Fabrications



- Example of Costs Not Allowed on Fabrications Include, but are not Limited to the Following (cont'd):
 - Legal expenses
 - Meetings, conferences, symposia
 - Travel (unless directly related to the installation of the fabricated equipment)
 - Software acquisition and/or development unless necessary in order for the fabricated equipment or instrument to operate
 - Visa applications

Fabrications



- Fabrications under Government Contracts (not Grants)
 - It is required to keep all materials & supplies specific to the contract separate for all other work.
 - It is requirement to maintain an inventory of used and unused materials and supplies associated with the contract.
 - Nothing can be disposed of without approval from the federal funding agency.
 - At the end of the award, Caltech is not entitled to keep all the all remaining materials & supplies not used.

Deliverable



A Deliverable is an item of equipment or a scientific instrument created by Caltech personnel funded by a sponsored project that grants title to the fabricated item to the sponsor, rather than to Caltech.

Example: Caltech building a wing model that will be owned by NASA

Deliverable



A Deliverable is not an Equipment Fabrication. Facilities and Administrative (F&A) rates will be applied to Deliverables, unless either of the following conditions exists:

1. The Deliverable is space hardware (major spacecraft subsystems and scientific instruments carried on space missions), whether purchased or fabricated, that otherwise meets Caltech's definition of "equipment".
2. The Deliverable meets Caltech's definition of "equipment" and is installed in a facility where Caltech faculty will have access to the instrument for research purposes.

Equipment Upgrade



- Upgrades & improvements to existing equipment (purchased off-the-shelf, donated, or fabricated)
 - Must either extend the useful life of the current asset by more than one year.
 - AND new features or capability or functionality to the existing equipment
 - AND the total cost of the upgrade (including taxes, shipping, installation, etc.) is \$5000, or more.
- The tag number of the original equipment **MUST** be included on the purchase requisition
- Use the appropriate equipment expenditure type for upgrades and improvements (Equipment–Caltech, Equipment–Govt, or Equipment–Other Owned)

Equipment Upgrade



Example 1

Task – Swap an old water pump with a new one for a Laser. The PI needs to use the laser on a new project that needs the laser to have a more powerful water pump. The new pump has **more power** and is **more efficient** than the old pump.

Total cost - **\$15,000**

Extend Useful life of the laser? **Yes**

Added new capabilities/functionalities? **Yes**

Therefore, the costs should be classified as equipment upgrade and use the appropriate equipment expenditure type.

Equipment Upgrade



Example 2

Task - Replace a broken water pump for a Laser . The new pump has **same power** and is **as efficient** as the old pump.

Total cost - **\$15,000**

Extend Useful life of the laser? **Yes**

Added new capabilities/functionalities? **No.**

- The pump is merely replacing a broken pump with a new or refurbished pump of similar capabilities.

Therefore, the costs should not be classified as equipment upgrade and use “**Equipment-Maintenance**” expenditure type.

Equipment Repair & Maintenance



In general, if the expenditure merely restores the equipment to the state it was in before the situation occurred which prompted the expenditure and the expenditure does not make the equipment more valuable, more useful, or longer-lived, or add any new capabilities, then the expenditure is usually considered a repair.

Note: Costs incurred to repair or refurbish an equipment, regardless of the amount, are expensed and may be subject to overhead.

Leasing of Equipment



Use the “**Leased Equipment**” expenditure type when a payment is made on a **capital lease**.

Caltech defines capital lease of equipment as individual leased assets in which either the **present value (PV)** of the minimum lease payments or the **fair market value (FMV)** of the lease payments at lease inception, whichever is higher, is more than or equal to **\$500,000**, will be treated as capital leases.

Use “**Rental of Equipment**” expenditure type if a lease does not meet the conditions stated above (a.k.a. Operating Lease).

Microelectronic Chips



Use the “**Microelectronic Chips**” expenditure type when Caltech is acquiring microelectronic chips manufactured by an outside vendor based on Caltech designs and specifications.

Example – Purchase of a “Lot of 100 TSMC 65nm RF CMOS ICs” for \$18,650

**This expenditure type should not be used when Caltech is acquiring microelectronic chips to be used as materials for a larger equipment fabrication. Instead, “Supplies allocable” should be used in these instances.

Other Internal Charges



Use “**Other Internal Charges**” for charges from Caltech service organizations using Web Internal Charges (WIC) to recharge the expenditures.

****This expenditure type should not be used when purchasing a capital equipment from the bookstore. Instead, use the appropriate equipment expenditure type for equipment purchases.**

Items under \$5,000



- In general “**Supplies-Allocable**” should be used for purchases that do not meet the requirements for equipment classification.
- Note the following:
 - Purchase of supplies are expensed and may be subject to overhead depending on the source of funds used.
 - This expenditure type is also used to classify material purchased to fabricate equipment, regardless of the total acquisition costs, the ownership of the completed equipment, or where the equipment will be located/used when the equipment will be placed in service.

Items under \$5,000



- “**Supplies-Allocable**” should only be used when Caltech is acquiring supplies that are allocable to a specific award (the use of the supplies or material directly benefits the award), and/or is associated with an appropriate business activity or event.
- Use the “**Supplies-Unallocable**” expenditure type if the costs of acquiring supplies or materials that are not allocable under applicable cost principles, or are not associated with an appropriate business activity or event.

Property Services Contact Information



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** Main contact for general property related issues.