

**Capitalization Threshold Increase
Process Summary
June 17, 2013**

Summary

The Capitalization Threshold for capital equipment will increase from \$2,500 to \$5,000 effective July 1, 2013 (FY 2014). The \$5,000 threshold applies to both capital equipment and fabrications.

For regulatory requirements, equipment purchases between \$2,500 and \$4,999.99 must be recorded to the appropriate non-capital equipment account (7501xx).

Implementation

During the year-end process, open purchase orders for capital equipment will be closed by Purchasing. Accounting Services will advise departments on questions regarding correctly creating a new purchase order for FY2014 based on the change in threshold and timing of receipt of the purchase.

For sponsored projects with existing capital equipment budgets, the accounts have been established.

Business Process

To ensure that awards and grants are not negatively impacted by F&A charges on purchases that would have been capital prior to 7/1/13 (purchases greater than \$2,500), the following processes will be implemented:

➤ **Equipment**

F&A charges will post daily to the non-capital purchases in account 7501xx – Non-capital equipment. The following day, SFR will reverse the F&A charges based on the following criteria:

- Purchase would have been exempt from F&A charges under old threshold (e.g., MTDC base not TDC base).
- Purchase must be between \$2,500.00 and \$4,999.99.
- Purchase must be recorded to account 7501xx.
- Award start date must be before 1/1/2014.

Daily reversal process will expire 6/30/15.

New and competing renewals on or after 1/1/2014 will be subject to the new threshold.

► Fabrications

F&A charges will post daily to the non-capital purchases in account 750112 – Non-capital Fabrications. The following day, SFR will reverse the F&A charges based on the following criteria:

- Purchase would have been exempt from F&A charges under old threshold (e.g., MTDC base not TDC base).
- Fabrication must be between \$2,500.00 and \$4,999.99.
- Purchase must be recorded to account 750112.
- Award start date must be before 1/1/2014.
- Transactions must contain a non-capital fabrication number in **PO Line Item Description**.
[Note, prior to 6/28/13 this incorrectly said 'PO Header Comment'.]

Non-capital fabrication: Departments must apply and receive approval for a purchase to be considered a non-capital fabrication. Process is similar to the current process for Capital Fabrications. Form is to be submitted to Inventory Services for approval. Once approved, a non-capital fabrication number will be assigned. Purchase Order must contain the non-capital fabrication number in the **PO Line Item Description** field to qualify for F&A exemption. [Note, prior to 6/28/13 this incorrectly said 'PO Header Comment'.]

Daily reversal process will expire 6/30/15.

New and competing renewals on or after 1/1/2014 will be subject to the new threshold.

UM Reports

Capital Equipment purchases will appear in different accounts, depending on the timeframe of the report.

- 168001 Capital Equipment – equipment purchases prior to 7/1/2013
- 168810 – Capital Fabrications – fabrication purchases prior to 7/1/2013
- 850101 – Capital Equipment – equipment purchases on or after 7/1/2013
- 850104 – Capital Fabrications – fabrication purchases on or after 7/1/2013

Additional Information

The capital asset business process is also changing effective July 1, 2013. Please refer to the Capital Asset Business Process Summary for additional information.

For assistance on the above process, please call the University Financial Helpline 612-624-1417 or email finsys@umn.edu.