

MISSISSIPPI STATE UNIVERSITY

Effective July 1, 2004

OPERATING PROCEDURES

Unexpended Plant Funds and Renewal/Replacement Plant Funds

STATEMENT

This document provides guidance and procedures pertaining to the proper utilization of Unexpended and Renewal/Replacement Plant Funds in order to ensure compliance with generally accepted accounting principles. In addition, these procedures will improve consistency and accuracy in accounting for expenditures associated with long-term, plant assets.

DEFINITION

Plant Funds, in general, are funds used to account for resources and expenditures associated with plant assets. Plant assets are tangible items with a useful life of one year or more that exceed a minimum capitalization threshold, which varies based on the type of asset.

IMPORTANT ITEMS TO REMEMBER

First, it is important to understand the difference between a capitalizable expenditure and a capital expenditure. **Capitalizable** expenditures are expenditures that will eventually be capitalized into the Net Investment in Plant Fund, a fund which represents the total value of plant assets held and the total amount of long-term debt associated with acquiring the assets. **Capital** expenditures are expenditures coded with a 408XXX capital expenditure account code. The distinction is important since not all capitalizable expenditures are capital expenditures and not all capital expenditures are capitalizable. For instance, to acquire a parcel of land, you may incur legal fees, which will be charged to account code 405760. These legal fees are capitalizable as part of the cost of the land, even though the account code used for legal fees is not a 408XXX capital expenditure account code.

In addition, it is important to keep in mind that:

- Each Plant Fund should be established to account for a single project or purpose
- All expenditures that post to an Unexpended Plant Fund should be capitalizable and necessary to complete the specific project for which the fund was established
- 408XXX capital expenditure account codes should be used for expenditures posting to an Unexpended Plant Fund whenever possible

- None of the expenditures that post to a Renewal/Replacement Plant Fund should be capitalizable, since Renewal/Replacement Funds are used for non-capitalizable projects
- Non-capital Expenditure account codes (405XXX and 406XXX) should be used for expenditures posting to a Renewal/Replacement Plant Fund whenever possible

As a result, the total amount of capitalizable expenditures should be relatively easy to determine at the end of each fiscal year by adding:

- the total amount of expenditures accounted for in Unexpended Plant Funds
- the total amount of capital expenditures for equipment and furnishings
- the total amount of capital lease payments

AN OVERVIEW OF UNEXPENDED PLANT FUNDS AND RENEWAL/REPLACEMENT PLANT FUNDS

A. Unexpended Plant Funds are used to accumulate resources and to account for capitalizable expenditures relating to the acquisition, improvement, construction, or expansion of the University's physical property. Specifically, Unexpended Plant Funds are most often used to account for:

- land acquisitions
- construction or acquisition of buildings costing \$50,000 or more
- renovations to an existing building that increase usable space, regardless of cost
- general renovations to an existing building that cost \$100,000 or more
- renewal/replacement of a major building component with a "better" component
- acquisition of capitalizable equipment (>\$5,000 per unit) that can not feasibly be expended from the E&G Fund in a single fiscal year
- "improvements other than buildings" (such as those to outside areas) that can not feasibly be expended from the E&G Fund in a single fiscal year
- major alterations to existing plant equipment that substantially change the original intended use or improve the efficiency or performance of the asset – except software

B. Renewal/Replacement Plant Funds are used to accumulate resources and to account for non-capitalizable expenditures only. Specifically, these funds are often used for:

- general building renovations that do not meet the minimum \$100,000 threshold for capitalization and do not increase usable space
- renewal/replacement of a major component of an existing plant asset with a "similar" component (such as a roller or a drum in a printing press or roofing on a building)

Keep in mind that a Renewal/Replacement Plant Fund is appropriate in these situations when it is necessary to accumulate cash in more than one fiscal year to fund the project. If accumulation

of cash is not necessary, the expenditures should be expended from the E&G Fund.

COMMON USES FOR UNEXPENDED PLANT FUNDS AND RENEWAL/REPLACEMENT PLANT FUNDS

A. Land Acquisitions

All costs associated with acquiring land and readying it for its intended use are capitalizable and should be accounted for in an Unexpended Plant Fund.

B. Construction or Acquisition of Buildings

Buildings with a total cost of \$50,000 or more are capitalizable and are normally accounted for in an Unexpended Plant Fund to ensure capitalization, especially when a large number of expenditures will be charged to non-capital expenditure codes (such as Architect Fees - 405720). However, a building can be purchased in the E&G Fund if funds are available and account code 408130-Buildings can be used for all necessary expenditures. Buildings with a total cost of less than \$50,000 are not capitalizable and should be accounted for in a Current Fund, such as the E&G Fund or a Designated Fund, using non-capital account codes such as 406099-Non-Capitalizable Buildings.

C. Building Renovations (Building Renovation Flow Chart)

General renovations to a building that add usable space (regardless of cost) **or** cost \$100,000 or more are capitalizable and can be expended from the E&G Fund using account code 408135 - Building Improvements. However, most capitalizable building renovation projects should be accounted for in an Unexpended Plant Fund, especially when a large number of expenditures will be charged to non-capital expenditure codes (such as Physical Plant Services - 405621).

When renovations involve replacing a major component of a building (such as an elevator, HVAC system, or roofing) the following should be considered:

- 1) If replacing a building component with a "**similar**" component that has comparable performance capabilities:
 - the expenditures incurred are not capitalizable, regardless of cost, since the cost of the original component was capitalized when the building was acquired or constructed
 - expenditures should be accounted for in a Current Fund or a Renewal/Replacement Plant Fund using non-capital account codes to ensure they do not get capitalized

- 2) If replacing a building component with a "**better**" component that has superior performance capabilities:

- the expenditures incurred are capitalizable, regardless of cost
- account for the cost of the new, "better" component in an Unexpended Plant Fund to ensure capitalization.

Whether a replacement is "similar" or "better" will be determined on a case-by-case basis. For help in making this determination, please contact Cost Accounting at 325-9417.

D. Acquisition of Equipment (Equipment Acquisition)

Tangible equipment items, including furnishings, with a unit cost of \$5,000 or more and a useful life of at least one year are capitalizable and, in most cases, should be expended from the E&G Fund using the appropriate capital expenditure account code (408XXX). However, it is permissible to accumulate residual cash in an Unexpended Plant Fund to purchase capitalizable equipment when the cost can not feasibly be expended from the E&G Fund in a single fiscal year. For bulk purchases of non-capital equipment that can not feasibly be expended from the E&G Fund in a single fiscal year, use a Designated Fund (Request for Designated Fund Establishment).

Some equipment, such as a computer system or modular furniture, consists of more than one component. The original assembled components should be considered one item and recorded as a single, capital asset if the components have a total value of \$5,000 or more and a useful life of at least one year. Additional components for an assembly, purchased after the original components, are not capitalizable unless the added component costs \$5,000 or more and has a useful life of at least one year.

Equipment purchased under a lease-purchase agreement is capitalized if the cost per unit is \$5,000 or more. Lease-purchase payments are normally expended from the E&G fund using a 4055XX lease-purchase account code, however, an Unexpended Plant Fund can be used when necessary to accumulate cash in more than one fiscal year to fund the payments.

E. Improvements Other than Buildings

"Improvements other than buildings" include construction of and alterations to outdoor areas/facilities such as stadiums, bridges, pond systems, courtyards, fences, streets, sidewalks, lighting, drainage systems, and signs. Minor improvements are normally expended from the E&G Fund using the appropriate 4081XX account code. Larger improvement projects, especially projects where a significant amount of expenditures will be charged to non-capital account codes (such as 405621-Physical Plant Services), are typically accounted for in an Unexpended Plant Fund to ensure that all project costs are captured and considered for capitalization.

F. Alterations to Equipment (Equipment Alterations)

Minor alterations, repairs, and general maintenance of equipment (including the cost of maintenance contracts) are current operating expenditures and should be expended from the E&G Fund using the appropriate 405XXX contractual services account code. However, some

major alterations to plant equipment that significantly change the original intended use or increase the efficiency or performance of the asset qualify for capitalization and can be accounted for in an Unexpended Plant Fund. Alterations of this description should be submitted to the Cost Accounting Department for evaluation on a case-by-case basis.

Note: Software, even though it tends to increase efficiency and performance, should not be capitalized since it is an intangible asset. The cost of software is capitalized only when it is included with the purchase of a computer hardware system and can not be separately identified.

TRANSFERS BETWEEN FUNDS REGARDING PLANT ASSETS (Request for Cost Transfer)

Transfers from the E&G Fund to an Unexpended Plant Fund are appropriate for capitalizable projects and purchases as described above. Transfers from the E&G Fund to a Renewal/Replacement Plant Fund are appropriate when it is necessary to accumulate cash for non-capital purchases and projects listed above. Such transfers must be processed by the Financial Records Manager at Mail Stop 9602 and require approval of the appropriate Director/Department Head and Vice President.

Transfers from the E&G Fund to a Designated Fund are discouraged and generally occur only when it is necessary to accumulate cash for acquisition of a non-capital building or to fund bulk purchases of non-capital equipment. Such transfers require approval by the appropriate Director/Department Head and Vice President and are subject to review by the Controller and the Chief Budget and Financial Officer. All transfers from the E&G Fund to a Designated Fund must be processed by the Financial Records Manager at Mail Stop 9602.

ESTABLISHING AN UNEXPENDED PLANT FUND (Unexpended Plant Fund Request Form)

OR A RENEWAL/REPLACEMENT PLANT FUND (R&R Plant Fund Request Form)

To establish an Unexpended or Renewal/Replacement Plant Fund complete the appropriate request form, obtain proper approval, and forward the form to the Financial Records Manager at Mail Stop 9602. When the fund has been established, appropriate parties will be notified of the Fund, Organization, and Program numbers assigned. The Budget Office will also be notified that a new fund has been established, however, a budget will not be set-up until the fund has a cash balance.

ASSISTANCE

The Cost Accounting Department is available to provide assistance regarding Plant Funds.

Quick Reference to Definitions:

"Better" Component	A component with superior performance capabilities
Building Components	Items designed and installed as an integral part of a structure, such as elevators or HVAC systems
Buildings	Permanent structures for housing persons or property
Capital Expenditures	Expenditures accounted for using a 408XXX Capital Expenditure account code
Capitalizable Expenditures	Expenditures that meet the requirements for capitalization
Inventoriable Equipment	Tangible equipment that have a useful life of at least one year and an acquisition cost of \$500 or more; Includes items on the Exception List of Equipment that are inventoried regardless of cost.
Improvements other than Buildings	Construction or modifications to outside areas such as street, stadiums, and signs
Permanently-attached Equipment	Equipment that is affixed to but separate from the building itself that would be very costly to remove or would require extensive alterations or repairs to the facility if removed
Plant Assets (also called Capital Assets)	Tangible assets that have a useful life of at least one year and a value that meets or exceeds the minimum value established for that specific asset category
Renewal/Replacement Plant Funds	Used primarily to accumulate reserves and to account for <u>non-capital</u> building renovations and the renewal/replacement of an <u>existing</u> plant asset component with a "similar" component
"Similar" Component	A component that is essentially the same type and has the same or only marginally superior performance capabilities
Unexpended Plant Funds	Used to account for resources and <u>capitalizable</u>

	expenditures relating to the acquisition, improvement, construction, or expansion of the University's physical property
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