

# UNIVERSITY OF CALIFORNIA

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VICE CHANCELLORS – ADMINISTRATION  
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Subject: Implementation Plan – Changing the University's Definition of Equipment

The University of California currently uses a minimum dollar threshold of \$1,500 in its definition of equipment for purposes of capitalization, inventory, and indirect cost application and calculation. Federal regulation would permit the University to increase this threshold from its current level of \$1,500 to \$5,000. Following months of discussion within the University, prompted by our current budget situation, we are raising the equipment capitalization level to \$5,000. Effective July 1, 2004, equipment will be defined as articles of non-expendable tangible personal property having a useful life of more than one year, and an acquisition cost of \$5,000 or more per unit. To moderate the effect of this change on contracts and grants, the \$1,500 threshold will continue to be used for purposes of indirect overhead determination through June 30, 2006. Beginning July 1, 2006, indirect costs will be applied to all expenditures for items below \$5,000.

The long-run effect of the revised definition will be a lower administrative burden on departments as well as administrative units, enhance control and stewardship over the remaining items of inventory, and improved compliance with materiel management and federal audit requirements. As with any change, however, there will be some short-term costs associated with implementation. We are in the process of developing guidelines for implementing the new threshold requirements.

## IMPLEMENTATION PLAN:

1. During FY 2003-04, all purchases and acquisitions will continue to be processed with the same equipment definitions (\$1,500) and coding as in FY 2003. Effective July 1, 2004, all transactions will be processed using the new threshold of \$5,000.
2. For the purpose of determining the indirect costs applicable to specific grants or contracts, the previous threshold of \$1,500 should be retained through June 30, 2006. Beginning July 1, 2006, indirect costs will be applied to all expenditures for items below \$5,000.
3. Effective July 1, 2004, physical verification and tracking will be required only for items valued at or above \$5,000.
4. The University's financial statements for the fiscal year ending June 30, 2005, shall reflect the new threshold of \$5,000.
5. Two new object codes will be established to track the expenditures for items with unit costs between \$200 - \$1,499, and \$1,500 - \$4,999. These codes are needed to facilitate the delay in the application of indirect costs to grants and contracts and to provide the UC Budget Office with data sufficient to document its request for equipment funds to the State.

**INTENDED RESULTS:**

This plan is intended to achieve the following:

- 1. Simplify the transition and minimize the associated costs and efforts.

There will be little apparent change to the general campus community in FY 2004, except for the preparation of grant and contract proposal budgets for periods beyond July 1, 2006, and the use of two new object codes.

It will not be necessary to identify sponsored projects with different thresholds.

Accounting and/or Procurement offices should begin to prepare campus personnel to use the \$5,000 threshold for purchases and acquisition effective July 1, 2004 and to use the new object codes for tracking expenditures for the purpose of items between \$200 - \$1,499 and \$1,500 and \$4,999.

- 2. Maximize the benefits of the change.

Effective July 1, 2004, campuses will not be required to physically inventory items between \$1,500 and \$4,999. This will reduce the items requiring physical inventory by almost 74%, thus greatly reducing this administrative burden.

- 3. The change in capitalization threshold does not eliminate the University's stewardship function of being responsible and accountable for all University property.

**ADDITIONAL INFORMATION AND GUIDANCE:**

In the next several weeks, various Office of the President offices will be consulting with campus functional offices to address specific implementation procedures, including the following:


Equipment Management issues, including inventory procedures to be used beginning July 1, 2004.

Research Administration issues, including negotiation with State government agencies to accept the \$5,000 value for meeting State awards administration requirements, and instructions on preparing grant and contract proposal budgets.

Accounting issues, including FY 2005 year-end procedures for reporting plant assets.

Costing issues, including strategy for negotiating with the federal government to reissue all indirect cost rate agreements to reflect the change in the equipment threshold, preparation and submission of updated Cost Account Standards – Disclosure Statements, and formulation of procedures for future preparation of indirect cost rate proposals.

If you have any questions regarding this plan, please call me at 510-987-0931, or Jorge Ohy at 510-987-9842.



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Vice President—Financial Management

- cc: Vice Provost Coleman
- Director Plotts
- Campus Controllars
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- Campus Equipment Managers

- Campus Extramural Funds Managers
- Campus Indirect Cost Managers
- Campus Materiel Managers
- Campus Plant Accountants