CHANCELLORS

Subject: Changes to 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.

Due to the current budget situation, various constituent groups on the campuses have requested that the equipment capitalization threshold be increased to $5,000. A systemwide review has been conducted and widely discussed with the Controllers, Budget and Planning Officers, and Administrative Vice Chancellors. Individual discussions have also taken place at the campuses between the Controllers and the Vice Chancellors of Research. Based on the systemwide review, we estimate that if the capitalization threshold were raised to $5,000, the physical count of inventory items and the tracking of those items would be reduced by 74%, resulting in an estimated annual savings of over $4.5 million. In addition, by reducing the number of items to be tracked, it should allow the University to enhance its controls and stewardship over the remaining, more significant items of equipment and promote our compliance with external and University policy and procedures.

Based on the potential savings and the advice and comments received during this consultation, we plan to increase the equipment capitalization threshold to $5,000 effective July 1, 2004, as follows:

- The University will define equipment 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. This definition will be used for capitalization, inventory, and grants and contracts (indirect cost) purposes.

- Exception: 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. Indirect costs will be applied to all expenditures for items below $5,000 beginning July 1, 2006.

Increasing the capitalization threshold will greatly reduce the University’s burden of recording and tracking items of equipment, thereby producing the potential cost savings. It will also enhance our compliance with required Federal and University control procedures and reduce the risk of future audit disallowances. It will not, however, eliminate the University’s stewardship function of accountability for all University property. The new capitalization threshold will affect a variety of University functions and require some
variations in sponsored project budgets going forward. Additional guidelines are currently being developed to facilitate this change. These guidelines will be communicated directly to various functional offices on your campus.

If you have any questions or require additional information, please feel free to contact me at 510-987-0931.

Sincerely,

Anne C. Broome
Vice President—Financial Management

cc: President Dynes
    Provost Greenwood
    Senior Vice President Mullinix
    Vice President Hershman