

4114 Capitalization of Fixed Assets

Effective Date: 7/1/2024 | Last Reviewed: 7/1/2024 | Old Policy Number: F1.15

POLICY STATEMENT

The purpose of this policy is to provide guidance in the area of accounting for expenditures associated with the acquisition, construction, and renovation of property, plant and equipment (fixed assets).

Overview

Property, plant and equipment, whether acquired or constructed, must be accounted for at historical cost as an asset on the balance sheet (i.e., capitalized') and depreciated over their expected useful lives. The historical cost of acquiring or constructing an asset includes all costs necessary to prepare the asset for its intended use (such as delivery costs and installation costs for purchased assets and building permits and architectural fees for newly constructed or renovated facilities).

Certain expenditures associated with property, plant and equipment after its initial acquisition or construction must also be capitalized and depreciated while other expenditures must be recorded as an operating expense on the statement of activities (i.e., expensed'). This policy will provide guidance in these areas.

Items that shall be capitalized

In general, the following items shall be capitalized. For specific examples, see the appendix of this policy.

All new construction projects and all purchases of assets having a unit cost of

\$5,000 or more and a useful life of two or more years shall be capitalized at cost.

Renovation and improvement projects having a cost of \$5,000 or more and that either change/improve the functional use of the space being renovated, cause the facility or equipment to be more efficient/productive, or extend the facility's originally estimated useful life shall be capitalized at cost.

Component items that individually cost less than \$5,000 but together form a system that has a combined cost exceeding \$5,000 and that were purchased during the same time frame shall be capitalized at cost. Similarly, comprehensive furniture replacement programs in residence halls shall be capitalized even if the cost of individual pieces does not exceed \$5,000.

Donated non-cash assets with a value of \$5,000 or more and a useful life of two or more years and which the College intends to use in the normal course of business shall be capitalized as property, plant and equipment at the assets' fair value at the time of donation.

Interest costs associated with new construction or renovation projects shall be capitalized in accordance with the College's *Capitalization of Interest* policy.

Leases meeting the criteria established for capital leases shall be capitalized at the lower of the present value of the minimum lease payments or the leased property's fair market value (see the section entitled *Leases*).

Items that shall not be capitalized

In general, the following items shall not be capitalized. For specific examples, see the appendix of this policy.

Normal routine repair and maintenance that does not extend the asset's useful life beyond its originally estimated useful life shall be expensed as incurred.

Renovation and improvement projects that do not change the functional use of the space being renovated, cause the facility or equipment to be more productive, or extend the facility's useful life beyond its originally estimated useful life shall be expensed as incurred.

Donated non-cash assets that the College does not intend to use in the normal course of business (for example, donated land that is not adjacent to the campus) shall be recorded as an investment at the asset's fair market value.

Leases that do not meet the criteria established for capital leases shall be expensed as incurred (see the section entitled *Leases*).

Leases

Leases shall be accounted for in accordance with ASC 842. The ASC 842 definition of a lease is a contract, or a part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration.

Contracts are reviewed by the Controller's office with numerous factors in play to determine whether leases end up on the balance sheet.

Construction in Progress

The costs of buildings or other real property assets (capital projects) that are under construction at fiscal year end are captured in a separate asset account (C.I.P.) and reported in the College's financial statements as Construction in Progress. Construction in progress represents a temporary capitalization of labor, materials, and fixed equipment of a construction project for financial reporting purposes. Depreciation is not calculated for assets under construction. When the construction asset is put into use, accumulated construction in progress costs are capitalized and depreciated within their respective asset categories.

The costs included in construction in progress are the total direct project to date expenditures together with the related accounts payable, insurance premiums, interest and other related accrued costs.

An asset is substantially complete when the structure or project is ready for the purpose for which it was constructed (i.e.: an academic facility is ready for instruction or research). All construction activity does not have to be complete or accepted for final payment, but the project should be complete enough to commence the activities for which it was constructed. The Facilities Office should make the determination as to when a project is substantially complete.

Depreciation

Fixed assets shall be depreciated using the straight-line method with a half-year convention. Depreciation will begin with the fiscal year in which the College first places the asset in service. Construction-in-process will not be depreciated until the associated facility is placed in service. Land shall not be depreciated. The following useful lives will be employed for purposes of depreciation.

Buildings

Masonry	60 years
Steel	30 years
Wood	30 years

Whenever possible, a newly constructed facility should be itemized by major components for purposes of depreciating the facility. For example, a new building might be considered to have the following components, each which would be depreciated according to the useful lives outlined above: shell (building); roof; infrastructure system (such as HVAC); furnishings.

Land improvements	20 years
Landscaping	20 years
Furniture	
Office	20 years
Classroom/residence hall/dining	10 years

Equipment

Technology servers	4 years
Hardware/Software	5 years
Lab equipment	10 years
Other	15 years

Computer Information System	15 years
Athletic	5 years
Vehicles	5 years
Capital leases	the length of the lease
Renovations/improvements	the renovated/improved area's useful life

Examples of building improvements with a 15 year useful life include:

<i>Electrical Improvements</i>	<i>Plumbing Improvements-HVAC</i>
<i>Fire Sprinklers</i>	<i>Fence</i>
<i>Networking</i>	<i>Floor Covering/Carpeting</i>
<i>Fire/Exterior Doors</i>	<i>Gutters</i>
<i>Windows</i>	<i>Alarm/Security System</i>
<i>Scoreboard</i>	<i>Bleachers</i>
<i>Shelving</i>	<i>Attached Kitchen Appliances</i>

Examples of building improvements with a 20 year useful life include:

<i>Signage</i>	<i>Steam Lines</i>
<i>Vinyl Siding</i>	<i>Roofing</i>
<i>Handicap Renovations</i>	<i>General Renovations</i>

Whenever possible, a general renovation to a facility should be itemized by major components for purposes of depreciating the renovation. For example, an office renovation might be considered to have the following components, each of which would be depreciated according to their useful lives: computers; furnishings; infrastructure.

Disposal

An asset that is sold or otherwise disposed of shall be removed from the accounting records when sold or disposed of. An asset that is fully depreciated shall remain in the accounting records until it is no longer in use, at which time it shall be removed from the accounting records.

Appendix

The following list contains examples of projects and their accounting treatment under this policy.

Project Type	Accounting Treatment
Improvements	
Roof replacement	Capitalize and depreciate over a minimum of 20 years for shingle and 60 years for slate
Repointing of masonry	Capitalize if comprehensive program; otherwise, expense
Window replacement	Capitalize
Repair/maintenance	
Roof repair	Expense
Painting (interior and exterior)	Expense, unless part of larger project or new construction
Carpet/flooring replacement	Capitalize
Energy saving retrofits	Expense
Project feasibility study	Capitalize if (a) project will be capitalized, (b) project will begin within three years from the study's completion date and (c) study cost > \$10K
Furniture replacement	
Segment of building or entire building	Capitalize and depreciate according to policy
Individual sporadic replacements	Expense
Roadway repavement	Capitalize if it extends original estimated useful life of roadway and if existing roadway's book value is available; otherwise, expense
Walkway replacement	Same as roadway repavement
Landscaping	Capitalize if comprehensive program; otherwise, expense
Technology	
Servers	Capitalize
Computers	Expense small single individual office replacement; Capitalize if part of classroom renovation or larger replacement purchase program
Software purchased	Capitalize

Software licenses Capitalize during implementation

Software developed Capitalize if >\$5K and is project based; refer to SOP 98-1

Library books

Expense

Collections

Collections meeting the definition provided in the AICPA Not-for-Profit Audit Guide will not be capitalized; all other art with a cost of >\$5K will be capitalized and depreciated over ten years