

EASTERN WEST VIRGINIA COMMUNITY & TECHNICAL COLLEGE
REGULATION NO. AR-7.9

TITLE: CAPITALIZATION OF COLLEGE ASSETS

General Summary Statement of Administrative Regulation purpose. This regulation sets forth standards for uniform capitalization of equipment and fixed assets that complies with federal, state and Eastern West Virginia Community & Technical College (EWVC&TC) reporting requirements.

Effective Date: FEBRUARY 15, 2005

Procedure:

For Financial Statement purposes the capitalization requirements are as follows:

1. **Equipment:**

Moveable Equipment having a useful life of one year or more and a total acquisition cost of \$1,000 or more per single unit. A single unit is defined as a piece of equipment, that when assembled, functions as a stand-alone unit.

Leased Equipment if it meets the capitalization criteria of Statement of Financial Accounting Standards No. 13. Please see the definition of Leased Assets in Appendix A.

Donated Equipment having a useful life of one year or more and a fair market value of \$1,000 or more.

2. **Buildings:**

Buildings, Building Improvements, Land Improvements and Infrastructure having a useful life of one year or more and a cost of \$5,000 or more.

Leased Buildings if they meet the capitalization criteria of Statement of Financial Accounting Standards No. 13. Please see the definition of Leased Assets in Appendix A.

Donated Buildings having a useful life of one year or more and a cost of \$5,000 or more.

3. **Computer Software** having a useful life of one year or more and a cost of \$5,000 or more per license.

Leased Computer Software if it meets the capitalization criteria of Statement of Financial Accounting Standards No. 13. Please see the definition of Leased Assets in Appendix A.

4. **Leasehold Improvements** having a useful life of one year or more and a cost of \$5,000.
5. **Land** is capitalized irrespective of cost.
6. **Library Books, Reference Materials and Resources** are capitalized irrespective of cost.
7. **Federally Owned and Other Party Owned Assets** are not capitalized unless the title to the asset is transferred to EWVC&TC. In that case such assets are capitalized at their fair market value (net book value at the time of transfer).
8. **Works of Art, Literature, and Historical Treasures** are not capitalized.
9. **Repairs and maintenance** related expenditures are not capitalized.

RELATED DOCUMENTS AND POLICIES

Appendix A of the EWVC&TC's Capitalization Policy provides definition of capital assets and the total cost of an asset. The Higher Education Useful Life document provides the estimated useful lives of depreciable assets.

The Chief Financial Officer is responsible for implementation, interpretation, and review of the Capitalization of College Assets procedures.

DR. LINDA S. DUNN, PRESIDENT

DATE

APPENDIX A
CAPITALIZATION OF COLLEGE ASSETS
DEFINITIONS

1. BUILDINGS

Definition

Includes buildings purchased or constructed. Construction projects are initially capitalized to construction in progress. Subsequently, the capitalized expenditures are recorded as an asset.

Capitalized Costs

If a building is acquired by purchase, the capitalized cost should include purchase price and other incidental expenses incurred at the time of the acquisition. If a building is constructed, the capitalized cost should include all reasonable and necessary costs incurred to construct the building and prepare it for its intended use. Such costs could include –

- Appraisal & Negotiation fees
- Surveying & Architect fees
- Legal and title fees
- Transportation charges
- Building permits
- Demolition costs
- Interest during construction
- Damage payments
- Land-preparation costs
- Insurance during construction
- Accounting fees
- Closing costs

2. BUILDING IMPROVEMENTS

Definition

The substitution of a better asset for the one currently used (example – install carpeting where none existed or substitute concrete floor for a wood floor), or any change to the building which increases its future service potential and extends its useful life (example – substitute new wooden floor for an old deteriorated wooden floor).

Capitalized Costs

Costs of improvement include expenditures incurred to increase the service potential of the building including the contract price, engineering, architectural, and attorney's fees.

3. COMPUTER SOFTWARE

Definition

Includes computer software acquired for internal use. Generally, only institutionally significant systems are capitalized. Also includes major modifications (such as an upgrade) to the software.

Capitalized Costs

Includes the acquisition cost of the software, third party fees (such as consulting fees), travel costs, payroll and payroll-related costs of employees directly assigned to the project and license fees.

4. DONATED ASSETS

Definition

Assets received in a voluntary non-reciprocal transfer from another entity such as gifts of capital assets.

Capitalized Costs

Donated assets are recorded at their fair market value or appraised value at the time of the gift.

5. EQUIPMENT

Definition

An article of non-expendable, tangible personal property that is free standing, movable, is complete in itself, does not lose its identity when affixed to or installed in other property and has a useful life greater than one year. Includes delivery equipment, office equipment, furniture and fixtures, factory equipment, instruments and vehicles. Also includes the following –

a) Fabricated Equipment

Includes self-constructed equipment where the total unit cost incurred to fabricate the equipment is \$1,000 or more.

b) Components

Includes enhancement parts that materially and permanently increase the value or useful life of equipment. A system of with multiple components which cannot operate independently of each other and cost \$1,000 or more will also be capitalized. The rule-of-thumb is that for a component to be included in the original acquisition cost of a piece of equipment, it should be attached or installed option which, as assembled, is expected to operate as one unit for the remainder of its life.

c) Exceptions to Equipment

Exceptions to the equipment definition are –

- Assets purchased as repair parts for existing parts in previously tagged equipment
- Materials used in repair or replacement of assets in structures
- Household equipment (drapes, bedding, carpet replacement)
- Built-in equipment – such items become part of the building or structure after installation and may be capitalized as building improvements. For example – built-in cabinets, garbage disposals, furnaces, and air conditioners. Please see the definition of building improvements.

Capitalized Costs

The cost of equipment includes all expenditures incurred for the equipment and preparing for its intended use. This includes the invoice purchase price, one-time charges for freight and handling, insurance on the equipment while in transit, cost of special foundations if required, assembling and installation costs, and blueprint and development costs, if applicable.

6. FEDERALLY OWNED ASSETS

Definition

Includes assets purchased with federally sponsored grant funds or assets furnished by the government as part of a grant. These federally funded or federally furnished assets are tagged, recorded and tracked in Eastern's Inventory System but are not reported on the Financial Statements of the College. The title to such assets generally remains with the federal sponsor. However, in some situations the federal sponsor may transfer the title of the asset to Eastern.

Capitalized Costs

Federally funded or furnished assets are recorded in the Inventory System at their acquisition cost, as provided by the government, plus any transportation and installation costs. When the title to such assets is transferred to the College, the assets is recorded at its fair market value (net book value of the asset at the time of the transfer).

7. INFRASTRUCTURE

Definition

Long-lived capital assets that are part of a network of assets that can have service potential for an extended period and that are normally stationary. Example of infrastructure networks – roads, sidewalks, electrical, sewer and water systems, fiber optic cabling system, transit systems, bridges, dams and tunnels.

Capitalized Costs

All expenditures incurred to acquire or construct infrastructure assets are capitalized.

8. LAND

Definition

Land purchased by EWVC&TC or acquired by gift or bequest.

Capitalized Costs

All expenditures incurred to acquire land and to prepare it for its intended use. These costs include purchase price, closing costs, and assumption of any liens, mortgages, or encumbrances on the land. Land acquired by gift should be recorded at its fair market value.

9. LAND IMPROVEMENTS

Definition

Any improvements with a limited life made to ready land for its intended use that is not part of an infrastructure network. Examples of land improvements – parking lots, landscaping, benches, fountains, bleachers, retaining walls, septic systems.

Capitalized Costs

These include costs incurred in preparing land for its intended use (grading, filling, draining) and any additional land betterments. If buildings are razed to prepare the land for its intended purpose, the cost of razing the buildings should be capitalized as land improvements.

10. LEASED ASSETS

Definition

Assets that are purchased under lease purchase contracts or agreements. Leased assets are capitalized if the non-cancelable lease agreement meets any one of the following requirements (as prescribed by Statement of Financial Accounting Standards No. 13) –

- I. The lease transfers ownership of the property to the lessee (EWVC&TC) by the end of the lease term.
- II. The lease contains a bargain purchase option, i.e., allows the lessee (EWVC&TC) to purchase the asset for a price that is substantially lower than the expected fair market value of the asset at the date the option becomes exercisable.
- III. The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
- IV. The present value of the minimum lease payments at the inception of the lease equals at least 90 percent of the fair value of the lease property.

Lease agreements not meeting any one of the above criteria are considered operating leases and not capitalized. The period payments are recorded as an expense.

Capitalized Costs

The purchase price of the asset is capitalized. Interest cost is recorded as an expense.

11. LEASEHOLD IMPROVEMENTS

Definition

Improvements to land and building leased by the College. These may include walls and partitions, electrical wiring and fixtures, heating and cooling systems, roofing and plumbing. Repair, maintenance and painting of existing improvements are not leasehold improvements.

Capitalized Costs

Total cost of alterations made to the leased land or building.

12. LIBRARY RESOURCES

Definition

Library acquisitions include regular volumes, books, journals, periodicals, archives, subscriptions, microforms, audio/visual medial, CD-ROMs, and electronic resources.

Capitalization Costs

Library books and reference materials are capitalized at purchase cost or fair market value for donated books and gifts. Library books are considered a composite asset. Annually, the value of books lost, stolen, destroyed or disposed is deducted from the composite capitalized value of library books.

13. OTHER PARTY OWNED ASSETS

Definition

Includes assets purchased with grant funds (other than federal funds) or assets furnished by the grantor (non-federal). These grantor funded or grantor furnished assets are tagged, recorded and tracked in EWVC&TC's Inventory System but are not recorded on the Financial Statements of the College. The title to such assets

generally remains with the grantor. However, in some situations the grantor may transfer the title of the asset to EWVC&TC.

Capitalized Costs

Such assets are recorded in the Inventory System at their acquisition cost, as provided by the grantor, plus any transportation and installation costs. When the title to such assets is transferred to the College, the assets are recorded at their fair market value (net book value of the asset at the time of the transfer).

14. REPAIRS AND MAINTENANCE

Definition

Expenditures incurred to maintain assets in operating condition. Repairs and maintenance does not usually make the asset more useful or add to the estimated life of the asset. Examples –

Land	mending a broken fence, unclogging drainage systems, and repainting park benches.
Building	replacing old carpet with new carpet, repainting interior or exterior, mending a roof (not replacing a leaky roof).
Equipment	replacing minor parts, lubricating and adjusting, getting a computer cleaned.

Repairs and maintenance expenditures are not capitalized and are charged as operating expense.

15. WORKS OF ART, LITERATURE AND HISTORICAL TREASURES

Definition

The College may maintain various collections of inexhaustible assets including contributed works of art (paintings, sculptures, and other artifacts), historical treasures (memorabilia, unique and significant structures) and literature (rare books and manuscripts). They would be held for exhibition, education, research and furtherance of public service. These collections would be neither disposed of for financial gain nor encumbered.

Since no value could be practically determined for these assets, such collections are not capitalized.