Fixed-Asset Capitalization Policy

A. Requirements for Capitalization

1. **Acquisition of Equipment**. To be considered for capitalization, and thus subject to depreciation, an asset must fulfill three characteristics:
    a. The asset must be acquired (purchased, gift-in-kind) for use in operations, and not for investment or sale.
    b. The asset (per individual unit) must have a useful life of at least three years.
    c. The asset must have a cost value exceeding, at a minimum, $5,000.
2. **Acquisition or Construction of Buildings**. These expenditures include the cost for renovations, betterments, or improvements that add to the permanent value of the asset, make the asset better than it was when purchased, or extend its life beyond the original useful life. To capitalize these costs, the improvements must fulfill at least one of the following three criteria:
    a. The useful life of the asset is increased.
    b. The productive capacity of the asset is improved.
    c. The quality of units/services produced from the asset is enhanced. The total project cost must also exceed $5,000.

B. Definition and Classification of Capitalized Costs

The basis for accounting for property, plant, and equipment is cost. All normal expenditures of readying an asset for its intended use are capitalized. Donated property, plant, or equipment is valued at its fair market value and is also capitalized. The capitalizable costs for each asset class are as follows:

1. **Land and Land Improvements**. This category of asset classification is used for all costs connected with the acquisition or improvement of land. This includes purchase price, appraisals, professional services, and title insurance. If land is purchased as a building site, certain expenses may be added to the cost: razing and removal, land or site improvements, utilities to site, and landscaping activity associated with new construction.
2. **Buildings and Building Improvements**. This category of asset classification is used for all costs related to the acquisition, or construction of a building if over $5,000, including the purchase price, professional services, appraisals, test borings, site preparation, materials, labor, and overhead as a direct result of the project during construction. Also included are all costs

associated with projects involving significant alterations, renovations, or structural changes (i.e., gutting a building and completely rebuilding the interior) that exceed $5,000, and that increase or amend the usefulness of the asset, enhance its efficiency, or prolong its useful life by at least three years. Building improvements may include interior or exterior construction of a building or building systems, such as electrical or plumbing.

3. **Equipment**. This category of asset classification is used for all costs associated with the purchase of tangible property that has a useful life of more than three years and a cost in excess of $5,000 per individual unit. Unit charges may also include the cost of installation, transportation, taxes, duty, or in-transit insurance. Tangible property includes furniture, fixtures, computer equipment, software, and vehicles. In addition to the net invoice price of an asset, all costs associated with modifications, attachments, accessories, or auxiliary apparatus necessary to make the property usable for its intended purpose may also be capitalized, only if incurred at the time of initial equipment purchase. All subsequent costs of this nature, to maintain the equipment, will be expensed.
   This category also includes all costs per unit related to the external purchase of software applications and the associated implementation costs (including initial licensing fees) that have a useful life of three years. (Fees paid for the renewal of software licensing and maintenance will not be capitalized and will be expensed.)
4. **Construction in Progress**. This category of asset classification is used for those costs incurred in connection with the construction of a building prior to the building being put into use.

C. Non-capitalizable Expenses

Costs that are below the $5,000 threshold for capitalization that neither significantly add to the permanent value of a property nor prolong its intended useful life are expensed. The following types of plant costs should be expensed:

1. **Maintenance**. The recurring work required to preserve or immediately restore a facility to such condition that it can be effectively used for its designed purpose. It includes work done to prevent damage to a facility. Examples: Custodial services; repainting a room; re-carpeting; fixing a leaky faucet.
2. **Preservation/Restoration Costs**. Expenditures associated with maintaining special assets in, or returning them to, a level of quality as close to the original as possible. Example: Returning a stained-glass window to its former level of beauty or acting to prevent any further deterioration.

3. **Interest Costs During Construction**. The cost of interest related to the acquisition or construction of an asset will be expensed during the period that is required to complete and prepare the asset for its intended use.
4. **Feasibility Studies**. Costs incurred in connection with preliminary planning and testing of site adequacy or the preparation of site modeling.

D. Equipment Leases

Please notify Financial Services regarding all equipment leasing to determine proper accounting treatment.

Depreciation

A. Purpose

A provision for depreciation is recorded to attribute the cost of the asset over a useful life.

B. Depreciation Method

Apart from land, all capitalized assets will be depreciated using straight-line method over the useful life of the asset class. An asset's useful life is the period over which services are expected to be rendered by the asset. The calculation of depreciation will be based on historical cost. The following summarizes useful life by category:

Asset Category Rate	Life	Yearly
Land	NA	NA
Land Improvement		
General Land Improvement	5 Yrs	20.00%
Construction of Quadrangle	33 Yrs	3.33%
New Parking Lot Construction	15 Yrs	6.66%
Building	40 Yrs	2.50%

Building Improvements	15 Yrs	6.66 %
Furniture & Equipment		
Plant F&E	5 Yrs	20.00%
Computer Equipment & Software	4 Yrs	25.0%
Books	NA	NA
Admin Enterprise Sys	5 Yrs	20.00%
Artwork	NA	NA
Student Laptop Computers	2 Yrs	50.00%

C. Salvage Value

Salvage value will generally not be utilized in calculating depreciation, unless the salvage value is specifically known.

D. Depreciation Timing

Depreciation of capitalized assets will commence in the year the item is placed into service or using the half-year convention. The half-year convention records a half-year of depreciation expense the first and last year of the asset's useful life. Construction in Progress will not be depreciated until the subsequent full year after the project's completion.

Disposal of Assets

The University does not have a mechanism for tracking each individual asset capitalized in a project and its eventual disposal. The University does track the total amounts capitalized annually to each fixed asset account on the balance sheet on a cumulative spreadsheet, which is updated annually. In order to compute the disposal of certain classes of fixed assets, the University bases its calculation of disposal of fixed assets on a conservative assumption that all fixed assets would be disposed of after 1-3 times the depreciable life of the asset (depending on the type of asset). The University normally does not sell its used assets (except for laptops and automobiles - see accompanying explanations for such sales). The following descriptions provide further detail for each asset category.

Buildings

Buildings are estimated to have a useful life of 40 years. Replacement of building systems and renovations to structure are undertaken through the building improvement accounts once a structure is erected.

Building disposals are to be undertaken only when the structure of the building is razed to the ground. No calculation has been made to date.

Building Improvements

Denote replacement of building systems and renovations to structure which are undertaken to elongate/enhance the life or usefulness of a structure. Useful life of building improvements is estimated to be 10 years. Building improvements will be written off from the general ledger after 3 times the useful life of the asset, i.e., 30 years. No calculation has been made to date.

Land Improvements Account Range (16150-161xx):

The University has multiple rates of depreciation for land improvement as identified below.

Acct #	Asset Type	Depreciable Life	Disposal Multiple	Disposal After
16151	General Land Improvements - Trees, Shrubs, Walkways, Parking Lot	5 Years	3	15 Years
16154	Construction of Quadrangle, land clearance and earth fill	33 Years Blended Rate	1	33 Years

161XX	New Parking Lot Construction	15 Years Blended Rate	1	15 Years

Calculation of Disposal

The University has estimated the disposal of general land improvements to be written off after 3 times the useful life of the asset. These assets are considered to require replacement and renovation on a continual basis and, therefore are considered to have a shorter useful life.

Furniture and Equipment (Account Range 164xx-165xx):

Calculation of Disposal

Average life of different categories of Furniture and Equipment and their disposal period is as follows:

Acct #	Asset Type	Depreciable Life	Disposal Multiple	Disposal After
164XX	Plant F&E	5 Years	3	15 Years
16453	Computer Equipment	4 Years	3	12 Years
16459	Books	0 Years	0	0 Years
16462	Admin Enterprise Sys & PBX	5 Years	2	10 Years
16465	Artwork	0 Years	0	0 Years
16471	Student Laptop Computers	2 Years	1	2 Years

Student Laptops are handled differently because they are on the books for two years, laptops in the possession of seniors will be gifted to them when they graduate and the laptops in the possession of sophomores will be sold at a market/reduced rate. Therefore, student laptops will not be written off. Any gain or loss on sale of laptops will be recorded in the non-operating section of the statement of activities.

Artwork is not considered depreciable and is only written off only when sold or discarded.

Automobiles

The University estimates useful life of its automobiles to be three years.

Calculation of Disposal

The University maintains a list of vehicles for insurance valuations, added to this list were any vehicles used on campus that are not insured. This composite list is summed up and any variation from it is removed from the vehicle assets through the contra account. Older automobiles are normally traded in for newer autos. The trade-in value of such autos is netted against the purchase price of a brand-new auto. The new auto is depreciated at the net purchase price.

Capitalization of Asset remediation obligation

Financial Interpretation Number (FIN) 47 which was adopted by the University, effective July 1, 2005, requires the University to record a liability on the future value of all facilities which are legally required to be remediated when being renovated or replaced. The Present Value cost of the future liability must be capitalized and depreciated from construction date through estimated settlement date of remediation. Any changes in such estimates which were originally developed in Fiscal 2006, must be updated periodically. Once such assets are remediated, the capitalized present value originally booked/subsequently updated must be taken off from gross asset and accumulated depreciation totals.

Journal Entry to remove/dispose asset

New contra accounts within a range of the actual asset account have been set up so the University can maintain a clean history on our Banner system of gross capital expenditures. The journal entry will be to credit these new contra accounts and debit accumulated depreciation.