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Summary:

This Capital Asset Policy is designed to ensure a uniform understanding of the University's capitalization policy for fixed assets. Clark University uses the straight-line method of depreciation (capitalized cost divided by useful life) with a 1/2 year of depreciation in the year of acquisition and 1/2 year of depreciation in the year of disposal.

Capitalization Thresholds and Useful Life			
Asset Category	**Threshold**	**Useful Life**	**Account Number**
Equipment	$5,000	8 yr	7901
Building Improvements	$15,000	20 yr	7902
Land Improvements & Infrastructure	$20,000	15 yr	7903
Building Purchase or Construction		50 yr	7904
Capital Leasehold Improvements		Once completed	7905
Construction in Progress	$5,000	Life of Lease	7906
Computers, Media & IT Equipment	$5,000	4 yr	7942,7943,7944
Internal Use Software - Major - Minor	 $5000-$50,000 Over $50,000	 5 yr 10 yr	7933

Equipment

Capitalized if unit value is $5,000 or more - 8 year life. Capital equipment is a movable or fixed unit of furniture or furnishings, instrument, machine, apparatus or set of articles which generally meets all of the following conditions:

- It retains its original shape and appearance with use.

- It is nonexpendable; that is if the article is damaged or some of its parts are lost or worn out, it is usually more feasible to repair it than to replace it within an entirely new unit.
- It represents a substantial investment of money.
- It does not lose its identity through incorporation into a different or more complex unit or substance.

A group of assets that in total cost $5,000 or more (e.g., 10 chairs costing $500 each or 5 computers costing $1,200 each) is not capitalized except for major new construction and renovation projects where the $5,000 threshold is waived for the purchase of moveable equipment and furnishings provided they meet the following requirements:

The equipment must be non-expendable, tangible personal property having an economic useful life of more than one year. During the normal course of business, these items would be expensed solely because they did not meet the University's $5,000 capitalization threshold. This exception allows for the capitalization of an original complement of low cost equipment and furnishings for the initial outfitting of a tangible capital asset or operational unit, or an expansion or renovation to either.

Equipment eligible for this treatment should be budgeted and expensed using the equipment greater than $5,000 account code. Expenditures for items that do not meet these requirements should be expensed using the account code for non-capital (less than $5k).

Example - The University constructs a residence hall with a budgeted project cost of $30 million dollars. Tangible equipment and furnishings are budgeted at $1.5 million. Assets that individually meet the capitalization threshold of $5,000 were purchased on the project totaling $200,000. These items should be capitalized as individual assets. The remaining assets purchased from the equipment and furnishings budget, which individually do not meet the $5,000 threshold, would be capitalized as a group(s) of assets with a cost of $1.3 million.

Example - The University upgrades a classroom that includes computer and media equipment. Individually, the components do not meet the threshold but the combined costs exceed $5,000. This would typically not be considered a major capital project since it is an upgrade and not a significant alteration or renovation; therefore all movable equipment/furnishings would be expensed.

Building Improvements

Capitalized if $15,000 or more - 20 year life. Building improvements are significant alterations, renovations, or structural changes that meets or exceeds $15,000 and that increase the usefulness of the asset, enhance its efficiency, or prolong its useful life. For example, the complete replacement of a roof would be capitalized if the cost exceeds the capitalization threshold ($15,000). Building improvements may include interior or exterior construction of a building or building systems, such as electrical or plumbing systems. They may also include the completion of interior or exterior appointments or finishes, so long as they are done as part of a significant alteration or renovation. Material remodeling or renovation that exceeds $15,000 in cost should be capitalized as a building improvement. Remodeling is defined as the changing of existing facilities by rearrangement of spaces and their use. Examples include the conversion of two classrooms to a laboratory or the conversion of a closed plan arrangement to an open plan configuration. Renovation is defined as rejuvenating or upgrading existing facilities by installation or replacement of materials and equipment and includes, but is not limited to, interior or exterior reconditioning of facilities and spaces, air conditioning, heating, or ventilating equipment.

Maintenance and renovations and costs below the threshold should be expensed. Distinguish between an expenditure that is a repair versus an improvement that extends the useful life of the

asset.

Land Improvements and Infrastructure

Capitalized if cost is $20,000 or more - 15 year life. Land improvements and infrastructure includes assets such as parking lots, fencing, gates, athletic fields lighting, utility distribution systems, cabling and networking between buildings, sidewalks, roads, drainage and sewer systems. All direct costs of construction or alteration should be included in calculating the cost of the land improvement .

Work to maintain land improvements in their existing condition, for example, resurfacing a parking lot or repairing a fence should be expensed.

Land Purchase

All direct costs of acquiring and preparing the land for service should be included in the capitalized cost of the asset. Direct costs include broker/architect/engineering/legal fees, permits, as well as actual purchase cost. Land is deemed to have a perpetual useful life and is therefore not depreciated.

Building

Building purchase or construction - 50 year life. All direct costs of construction should be included in calculating the capitalized cost of the asset. Direct costs include architect/engineering/legal fees, permits, interest incurred as a result of the building project, as well as actual construction costs. Included with this category are all permanently attached fixtures, machinery, and other components that cannot be removed without damage resulting to the building. If a component can be removed without damage, then it should be considered equipment and not included in the cost of the building. The cost of a building should not be adjusted for repairs, maintenance, or replacement of component parts that do not extend the building's original useful life or significantly enhance its net value. For example, work to maintain buildings in their existing condition, such as painting, repairs, or roof repairs should be expensed in the period in which the work is completed.

Construction in Progress

To be used when the asset under construction meets the capitalization threshold for its asset category and crosses two fiscal years. All construction costs associated with a project are accumulated and capitalized as construction in progress if the project meets the capitalization threshold. The construction in progress is closed out to the appropriate asset classification when the project is substantially complete, occupied, or placed into service and depreciation begins.

Capital Leasehold Improvements

$5,000 or greater. Depreciate for the remaining life of the lease. Construction of new buildings or improvements made to the existing structure by the lessee, who has the right to use these leasehold improvements over the term of the lease. These improvements will revert to the lessor at the expiration of the lease. Moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement.

Leases

Accounting standards classify leases as either an operating or capital lease. Capital leases are treated

as the acquisition of assets and the incurrence of obligations by the lessee. Operating leases are treated as current operating expenses. All lease agreements must be reviewed and approved by the Business Manager who will determine the classification of the arrangement.

Computers, Media & IT Equipment

$5,000 or greater per unit. Media equipment that is purchased with a unit price greater than $5,000 including but not limited to servers, telecommunications equipment, copiers, printers and multi-functional machines are capitalized.

Internal Use Software

Software having the following characteristics:

a. The software is acquired, internally developed, or modified solely to meet the entity's internal needs.
b. During the software's development or modification, no substantive plan exists or is being developed to market the software externally. A substantive plan to market software externally could include the selection of a marketing channel with identified promotional, delivery, billing and support activities.

Stages of Computer Software Development

There are three stages of computer software development: Preliminary Project Stage, Application Development Stage and Post-Implementation/Operation Stage.

Preliminary Project Stage: During this stage, strategic decisions are made to allocate resources to a new project, performance requirements and system requirements are proposed, vendors are explored and selected. Internal and external costs incurred during this stage are expensed. (See table below.)

Application Development Stage: Internal and external costs incurred to develop internal-use computer software during this stage should be capitalized. Costs to develop or obtain software for data conversion should also be capitalized. The process of data conversion from old to new systems may include purging or cleansing of existing data, reconciliation or balancing of the old data and the data in the new system, creation of new/additional data, and conversion of old data to the new system should be expensed as incurred. (See table below.)

Post Implementation/Operation Stage: Internal and external training costs and maintenance costs should be expensed as incurred. (See table below.)

Stages of Computer Software Development		
Preliminary Project Stage ***EXPENSE***	**Application Development Stage** ***CAPITALIZE***	**Post Implmentation/ Operation State** ***EXPENSE***
Conceptual formulation of alternatives	Design of chosen path, including software configuration and software interfaces	Training

Evaluation of alternatives	Coding	Application Maintenance
Determination of existence of needed technology	Installation to hardware	
Final selection of alternatives	Testing, including parallel process phase	

Capitalization of Software

Capitalization of costs should begin when both of the following occur:

a. Preliminary project stage is completed.
b. Management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended.

Capitalizable Costs:

a. External direct costs of materials and services consumed in developing or obtaining internal-use computer software.
b. Payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project, to the extent of the time spent directly on the project.
c. Interest costs incurred while developing internal-use software. (Interest should be capitalized in accordance with the provision of FASB Statement No. 34, Capitalization of Interest Cost.)

Upgrades and Enhancements: In order for upgrades and enhancements to be capitalized it must be probable that those expenditures will result in additional functionality.

General and administrative costs and overhead costs should not be capitalized as costs of internal-use software.

Capitalization should cease no later than the point at which a computer software project is substantially complete and ready for its intended use. Computer software is ready for its intended use after all substantial testing is completed.

Collections of Art, Historical Treasurer, or Other Similar Assets

The University houses certain collections of works of art, literary works and artifacts. These collections are protected and preserved for public exhibition, education, research, and the furtherance of public service. They are neither disposed of for financial gain nor encumbered in any manner; however, an inventory is maintained. Accordingly, these collections are not recorded or capitalized for financial statement purposes. Works of art and other similar assets that are not defined as collections but rather held for investment are not included in fixed assets and not depreciated.

Library Books

The University does not classify library books as a fixed asset and are therefore expensed when they are purchased regardless of cost.

Disposal of Fixed Assets

University equipment cannot be thrown away or discarded. To dispose of an asset, the responsible department must complete the Equipment Disposal Form. This form must be completed whenever the custody of the fixed asset changes due to the item returned to vendor, traded, junked, missing, stolen or determined to be surplus.

Returned/Exchanged Assets - If the department returns to a vendor an asset which has been capitalized for either credit or a replacement asset, the department should complete an Equipment Disposal Form and attach a copy of the credit memo, check received from the vendor, or a copy of the documentation and submit to the Business Manager.

Surplus and Junked Assets - When the department determines that an asset is considered to have no useful value to their department, the Business Manager should be contacted to determine if the asset can be repurposed to another department or disposed of. If the decision is made that there is no value to any other department on campus, the asset can be disposed of in accordance with University policy. However, the department must submit a completed Equipment Disposal Form to the Business Manager.

Missing or Stolen Assets - If an item is identified as stolen or missing the department must submit a completed Equipment Disposal Form to the Business Manager. If the item has been stolen the department should notify University Police and a copy of their report pertaining to a theft should be attached to the form.

Equipment Disposal Form

Complete an Equipment Disposal Form if university-owned capital equipment is sold, transferred or disposed of. This form does not grant approval to dispose of equipment, it only serves to update the capital equipment inventory.