



Capital Asset Policy

April 2023

Summary:

This Capital Asset Policy is designed to ensure a uniform understanding of the University's capitalization policy for assets. The estimated life used for each asset category is based on guidelines included in IRS Publication 946 as well as University experience. The estimated useful life for an individual asset may be adjusted up or down based upon the age of the asset (purchased or new construction), how frequently the asset is used, and other environmental conditions. Clark University uses the straight-line method of depreciation (capitalized cost divided by useful life) with a ½ year of depreciation in the year of acquisition and ½ year of depreciation in the year of disposal.

Asset Category	Threshold	Estimated Useful Life	Account #
Buildings	\$25,000	40 yrs	7904
Building Improvements	\$15,000	20 yrs	7902
Land Improvements & Infrastructure	\$20,000	15 yrs	7903
Leasehold Improvements	\$5,000	Shorter of Estimated Useful Life or Remaining Lease Period	7906
Equipment/Furnishing	\$5,000	8 yrs	7901
Pooled Asset - Equipment/Furnishing/Gym Equipment, Computers, Media Equipment, Network Equipment	\$25,000	Determined by the primary Pooled Asset Category	XXXX
Computers, IT, and Gym Equipment	\$5,000	4 yrs	7942 or 7908
Media & Network Equipment	\$5,000	5 yrs	7943 or 7944
Internal Use Software Minor Major	\$5,000 - \$50,000 Over \$50,000	5 yrs 10 yrs	7933
Software as a Service-implementation costs	\$5,000	Life of Contract	7909

Buildings – Non-Residential and Residential - All direct costs of construction should be included in calculating the capitalized cost of the asset. Direct costs of construction include architect fees, engineering fees, legal fees, permits, and interest incurred as a result of the building project, as well as actual construction costs. All direct costs incurred to acquire the building and prepare it for its intended use should be included in calculating the capitalized cost of the asset. Direct costs of acquisition include the purchase price, architect and engineering fees, cost of renovation necessary to prepare the building for its intended use, legal fees and closing costs, permits related to renovation, and unpaid taxes assumed (up to the date of acquisition).

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.

Building Improvements – Building improvements are significant alterations, renovations, or structural changes 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. Building improvements may include interior or exterior construction of a building or building systems, such as communication wiring, 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 the cost threshold 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. Expenditures must be distinguished between an improvement that extends the useful life of the asset versus a maintenance or repair cost. Maintenance and repairs, or renovations below the cost threshold should be expensed.

Land Improvements and Infrastructure – 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.

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 - 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 – Leases are classified and accounted for as either operating or finance leases in accordance with ASU 842- Leases. Finance leases are treated as the acquisition of assets and the incurrence of obligations by the lessee. For a lease to be classified as a finance lease, it must meet one of the five finance lease criteria included in ASC 842:

1. Transference of title/ownership to the lessee by the end of the lease term
2. The lease grants the lessee an option to purchase the asset at the end of the lease terms that is reasonably expected to be exercised.
3. The lease term is for a major part of the remaining economic life of the asset.
4. The present value of the sum of the remaining lease payments equals or exceeds substantially all underlying asset's fair value.
5. The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

For operating leases, ASC 842 requires recognition of a right of use (ROU) asset and a corresponding lease liability upon lease commencement. Clark has made an accounting policy election to treat operating leases with a lease term of 12 months at transition/lease commencement (and which does not have a purchase option that is reasonably certain of exercise) consistent with the recognition approach under ASC 840, which does not require capitalization of a lease asset or liability on the balance sheet. In addition, Clark has determined that leases which are determined to be immaterial to the University's financial statements will not be capitalized in accordance with ASU 842.

Equipment/Furnishing –Capital equipment/furnishing 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.
- It must be non-expendable, tangible personal property having an economic useful life of more than one year.

Example: 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 unless the criteria in the Exceptions Section below are met.

Computers, IT and Gym Equipment - IT 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. Gym equipment that has a unit price greater than \$5,000 are capitalized.

Example: A group of assets that in total cost \$5,000 or more (e.g., 10 computers \$800 each or 5 treadmills costing \$2,000 each) is not capitalized unless the criteria in the Exceptions Section below are met.

Media and Network Equipment - This includes stand-alone units or a combination of equipment for a system. This includes classroom and conference room media installations where the total cost of the components that make up the media “system” are \$5000 or greater.

Exceptions to Per Item Thresholds – For new construction, renovations or remodeling projects where the total cost of the furnishing and/or equipment exceeds \$25,000, the \$5,000 threshold is waived for the purchase of moveable equipment and furnishings provided they meet the following requirements:

- 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, furnishings, computer and IT equipment, gym equipment, media and network equipment as part of the outfitting of a tangible capital asset or operational unit, or an expansion, renovation, or remodeling.
- Acquisitions eligible for this exception should be budgeted and expensed using the appropriate accounting code (ACCT) for the capitalization category (i.e. equipment, furnishing, computers, etc.) greater than \$5,000. Expenditures for items that do not meet these requirements should be expensed using the account code for non-capital (less than \$5,000).
 - Example major construction/renovation/remodel - The University constructs a residence hall with a budgeted project cost of \$30 million. 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 or as one amount depending on the number and nature of 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 minor renovation/remodel – The University remodels a classroom, lobby, conference room, computer lab, etc. with a project cost of \$26,500 for furnishing and IT equipment. None of the furnishing meet the individual asset threshold; therefore, these items would be capitalized as a group(s) of assets with a cost of \$26,500. If any of the furniture or equipment being replaced is not fully depreciated, the net value remaining is written off.

Pooled Asset – A pooled asset is defined as a group of assets comprised of primarily – defined as at least 85% of the same category type (furniture, equipment, computers, media equipment, gym equipment, network equipment or fixtures) that individually do not meet the capitalization threshold but are purchased in a large quantity for a specific space that will transform or upgrade the space. The pooled asset method provides for small dollar/large quantity assets to be appropriately reflected on the financial statements without imposing the unnecessary tracking of each asset individually as a practical expedient. All purchases handled under the pooled asset method are to be capitalized into a pool that is given a unique name for tracking purposes. The cost should include full acquisition cost, including, where applicable, such items as design costs, outside installation costs, furniture assembly, freight charges, warehousing, and insurance. The total cost of the pooled assets must be greater than \$25,000.

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 <i>EXPENSE</i>	Application Development Stage <i>CAPITALIZE</i>	Post-Implementation/ Operation Stage <i>EXPENSE</i>
Conceptual formulation of alternatives	Design of chosen path, including software configuration and software interfaces	Training, data conversion
Evaluation of alternatives	Coding	Application maintenance
Determination of existence of needed technology	Installation to hardware	
Final selection of alternatives	Testing, including parallel processing 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. These costs include data conversion and migration, as well as training.

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.

Implementation Costs related to Software as a Service - Per Accounting Standards Update 2018-15 "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract", implementation costs related to software as a service should be capitalized or expensed in the same way as Internal Use Software (described above).

Capitalized implementation costs are expensed over the term of the contract. The term of the contract includes the non-cancellable period of the contract plus periods covered by (1) an option to extend the contract if the customer is reasonably certain to exercise that option, (2) an option to terminate the contract if the customer is reasonably certain not to exercise the termination option, and (3) an option to extend the contract in which exercise of the option is in the control of the vendor.

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.



Capital Asset Disposal Form

Complete the form below if university-owned capital assets are sold, transferred or disposed of. This form does not grant approval to dispose of equipment it only serves to update the capital asset inventory. Upon completion of this form, please forward to the Business Manager.

Name: _____ Title: _____ Today's Date: _____

Department: _____ E-mail: _____ Campus Ext: _____

Type of Disposition:

- Sold
 Transfer w/in Clark
 Returned
 Traded-In
 Donated
 Missing
 Stolen
 Junked

If transferred, New Location: _____ Disposal Date: _____

If Sold, Traded-In, or Donated, Recipient & Price Paid: _____

Explanation if Missing or Stolen (attach copy of Police report, if stolen): _____

Asset Description:

Description	Serial #	Location	Original Purchase Date	Original Purchase Price	Sale Price (if applicable)

Business Manager Approval _____ Date: _____

Approved copy to be sent to General Accounting – Associate Controller