

West Virginia Northern Community College

Asset Capitalization

Rule Number: NC-5010

Effective Date: April 1, 2014

Date Approved by WVNCC Board of Governors: February 27, 2014

Date Approved by WV Council for Community and Technical College System : March 11, 2014

Authority Reference: Not Applicable

Replaces previous rule dated: Not Applicable

Purpose: To establish a uniform capitalization policy that complies with federal and state financial reporting requirements.

Rule: “Capital Expenditures” are defined as expenditures for the acquisition cost of capital assets (land, buildings, equipment), or expenditures to make improvements to existing capital assets that materially increase the asset’s value or useful life. The acquisition cost of a capital asset includes all of the costs necessary to place the asset in service for its intended use. In general, this should include, but not necessarily be limited to, the net invoice price of the asset including the cost of any attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it was acquired. Also included in the acquisition cost are freight, transit insurance and installation charges. Management should exercise good judgment and consistent treatment with regard to what costs should be included.

For donated assets, the fair market value at the date of the gift will be used as the acquisition cost.

All capitalized assets must be College owned.

Repairs and maintenance which do not materially add to the useful life of the asset or increase the asset’s value should be expensed, not capitalized.

Capital Asset Classifications

1. Land- All purchases or donations of land will be capitalized regardless of value. The acquisition costs of Land should include the purchase price, closing costs, all costs incurred in preparing the land for its intended use and improvements to the land that have indefinite lives and are permanent in nature. Land is not depreciated.
2. Land Improvements- Improvements to land with limited lives such as landscaping, planting beds, and maintenance/repair work and landscaping should be recorded as land improvements. Land improvements in excess of \$2,500 should be capitalized. Land Improvements should be recorded as a separate asset from Land.
3. Buildings- All structures used for operating purposes including all permanently attached fixtures, machinery, and other components that cannot be removed without damage, such as boilers, air conditioners, wiring, and lighting fixtures.

If a building is acquired by purchase, the capitalized cost should include the purchase price plus other expenses incurred at the time of acquisition. A purchase of both land and buildings requires that the cost be allocated between the assets.

If a building is constructed, the capitalized cost should include, but not limited to material, labor, building permit fees, title costs, architectural, engineering and legal fees.

4. Building Improvements- All alterations, renovations and repairs to existing structures in excess of \$2,500 that increase the value of the property, make it more useful, or increase its useful life. This includes additions, roof replacements, replacement of central air conditioning or heating systems or other major renovations. Work to maintain the facility in its existing condition, such as painting or repairs, should be expensed.
5. Infrastructure- long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include fencing and gates, driveways, paving, parking lots, athletic fields, yard lighting, roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems.
6. Furniture and equipment - Any moveable, nonexpendable personal property, not permanently affixed to a building, with a life expectancy of more than one year and an acquisition cost of \$5,000 or more per single unit. A single unit is defined as a piece of equipment/ furniture that when assembled functions as a stand-alone unit. This includes capital equipment, capital furniture & fixtures, computers, and vehicles.

All furniture and equipment meeting the criteria for capitalization must be identified, tagged and entered into the College's Fixed Asset Inventory System.

7. Library Books – All library books will be capitalized irrespective of cost.
8. Computer Software- having a useful life of more than one year and a cost of \$2,500 per license.
9. Capital Leases- capitalized if they meet the criteria of Statement of Financial Accounting Standards Number 13.
10. Leasehold Improvement- All alterations, renovations and repairs to leased facilities in excess of \$2,500 that increase the value of the property, make it more useful, or increase its useful life. Amortization is applied over the term of the applicable lease.
11. Aggregate Purchases- When a group of fixed assets are acquired for one area/room and collectively the purchase total exceeds \$15,000, then the total of the assets purchased should be capitalized. An example is furniture and equipment purchased to furnish a new building.

If a group of like assets are acquired together and will be utilized in one capacity, then even though the individual acquisition costs are less than the threshold for capitalization, then the assets should be capitalized if the aggregate acquisition cost exceeds \$15,000. An example would be new computer equipment to furnish a computer lab.

12. Construction in progress – Construction in progress should be capitalized at the end of each fiscal year. Construction in progress is not depreciated. When the construction is complete and the asset placed into service, the construction in progress total is transferred to the respective asset account such as Building Improvement, and depreciation then begins in accordance with the guidelines below.

Depreciation Guidelines

All depreciable assets will be depreciated using the straight-line method, with half-year convention. The straight-line method allocates an equal amount of the net cost of the asset to each accounting period in the asset's useful life. All depreciable property will have a 0% salvage value.

The following useful lives will be used for depreciation purposes:

Building and improvements	15-50 years
Infrastructure	15 years
Improvements	15 years
Equipment and Furnishings	3-12 years
Vehicles	5 years
Library books and audiovisual equipment	7 years
Computer equipment	5 years