CENTRAL MICHIGAN UNIVERSITY	**POLICY**

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FINANCIAL AFFAIRS

SUBJECT:	CLASSIFICATION AND CAPITALIZATION OF CAPITAL ASSETS

Capital assets are comprised of land, land improvements, building and building improvements, leasehold improvements, infrastructure, equipment and vehicles, library books, art and collections (i.e., works of art and historical treasures), and software. (Note that the information below has been adopted from the Financial Accounting and Reporting Manual (FARM), FARM Release 01-3, Section 307.3 and sub-sections contained therein.)

Land

Definition: Land includes all real property that is purchased or acquired by gift or bequest. CMU must have title to the land before it is capitalized. The purchase of easements should also be recorded as land.

Capitalization Threshold: All land purchases, gifts, or bequests are capitalized, regardless of amount. The capitalized cost of land purchased would include the amount paid for the land, plus all ancillary costs, such as broker fees, legal fees, and real estate taxes incurred prior to being registered as owned by a tax-exempt entity. If acquired by gift or bequest, the capitalized cost would be recorded at acquisition value at the date of the gift or bequest.

Depreciable Life: Land is not depreciated.

Land Improvements

Definition: Land improvements include assets such as parking lots, fencing, gates, athletic fields, and parking lot lighting.

Capitalization Threshold: The cost of land improvements in excess of $50,000 should be capitalized. 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, re-asphalting a parking lot, should be expensed.

Depreciable Life: Land improvements in excess of $50,000 are depreciated straight-line over 8 years.

Buildings & Building Improvements

Definition: Includes all structures used for operating purposes, as well as significant improvements made to an existing structure that meet appropriate capitalization criteria. 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 or improvement.

Capitalization Threshold: All direct costs of construction should be included in calculating the capitalized cost of the asset. Significant structural alterations that increase the building's usefulness, efficiency or asset life should also be capitalized. For example, the complete replacement of a roof would be capitalized if the cost exceeds the capitalization threshold. Building improvements in excess of $50,000 are capitalized.

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.

Material remodeling or renovation that exceeds 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 and includes, but is not limited to, 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.

Depreciable Life: Buildings and building improvements in excess of $100,000 are depreciated straight-line over 40 years. Buildings and building improvements of $50,000 to $100,000 are depreciated over 10 years.

Leasehold Improvements

Definition: Includes significant improvements made to leased space that meets the building & building improvement capitalization criteria. Upon termination of the lease, the asset is written off.

Capitalization Threshold: Leasehold improvements in excess of $50,000 are capitalized.

The cost of **repairs and maintenance** should be expensed. For example, work to maintain buildings in their existing condition, such as painting and repairs should be expensed in the period in which the work is completed.

Depreciable Life: Leasehold improvements are depreciated over 10 years.

Infrastructure

Definition: Infrastructure includes all items such as streets, street lighting, roads, sidewalks, curbs, utility distribution systems, and storm sewers. These assets usually have a longer useful life and are more permanent in nature than land improvement related assets.

Capitalization Threshold: Work to improve infrastructure assets, for example creation or replacement of a storm sewer, in excess of $50,000 should be capitalized. All direct costs of construction or alteration should be included in calculating the cost of the asset. If the asset is constructed / altered by CMU's own personnel, then these costs should also include any indirect costs, such as allocated overhead. Work to maintain infrastructure assets in their existing condition should be expensed.

Depreciable Life: Infrastructure in excess of $50,000 is depreciated straight-line over 20 years.

Equipment

Definition: Equipment generally includes all items that are perceived as moveable personal property. Equipment may be purchased, fabricated, or received by donation. Examples of equipment include furniture, lab equipment, and classroom equipment.

Capitalization Threshold: Equipment in excess of $5,000 is capitalized. Purchased equipment should be recorded at cost, which is calculated at the amount invoiced, plus freight, installation costs and any applicable taxes, less any discounts. The cost of fabricated equipment should include the direct cost of the fabrication and installation. Donated equipment should be recorded at acquisition value as of the date of the gift. Equipment received via significant purchasing rebate or discount programs shall be evaluated on a case by case basis to determine if the equipment will be capitalized.

CMU's capitalization threshold for equipment is $5,000. Equipment that is categorized as grant funded should be evaluated using Policy 90,074 (Federally Funded Equipment). Equipment assets, other than those that are considered low theft items, are also tagged and then capitalized within the fixed asset system. If tagged equipment items are not found during annual inventories, the asset should be retired and removed from the University's records.

Depreciable Life: Equipment is depreciated straight-line over 8 years.

Digital TV Equipment

Definition: Constructed digital television equipment, as defined by the Public Broadcasting department, may be purchased, fabricated, or received by donation.

Capitalization Threshold: Constructed digital television equipment is capitalized. Purchased equipment should be recorded at cost, which is calculated at the amount invoiced, plus freight and installation costs, less any discounts. The cost of fabricated equipment should include the direct cost of the fabrication and installation. Donated equipment should be recorded at acquisition value as of the date of the gift.

Depreciable Life: Constructed digital television equipment is depreciated straight-line over 20 years.

Licensed Vehicles

Definition: Vehicles typically includes passenger vehicles, such as automobiles and vans, and facility related vehicles such as pickup trucks, dump trucks, and cargo vans. Also included are trailers which require a license from the state government. Vehicles may be purchased, fabricated, or received by donation. Vehicles have a VIN number and are registered with the state government.

Capitalization Threshold: Vehicles in excess of $5,000 are capitalized. Purchased equipment should be recorded at cost, which is calculated at the amount invoiced, plus freight and installation costs, less any discounts. Donated equipment should be recorded at acquisition value as of the date of the gift.

Depreciable Life: Vehicles are depreciated straight-line over 4 years.

Library Books

Definition: Library books include hard and soft cover books, periodicals and subscriptions. Rare books that are considered "collections," similar to works of art or historical treasures, should be classified as Collections. Electronic library subscriptions with a subscription period 12 months or less are not capitalized and are to be recorded and expensed in GL 812600-Electronic Subscriptions, 812700-Electronic Journals, or 812800 Electronic Journal Package.

Capitalization Threshold: Library books should be capitalized at their purchase price plus transportation and any incidental costs. Donated books should be recorded at acquisition value as of the date of the gift.

Depreciable Life: Library books are capitalized at the end of each fiscal year and are depreciated straight-line over 8 years, taking one-half year depreciation in the first year.

Art

Definition: Art is defined as historical treasures or similar assets that are (a) held for public exhibition, education, or research in furtherance of public service instead of financial gain, (b) protected, kept unencumbered, cared for, and preserved, and (c) subject to organizational policy that requires the proceeds of items that are sold to be used to acquire other works of art. Items that do not meet these criteria are not considered art and must be capitalized accordingly.

Capitalization Threshold: Art with a value in excess of $100,000 acquired through purchase should be recorded at cost. Art in excess of $100,000 that was received through gift or bequest should be recorded at acquisition value.

Depreciable Life: Art is not depreciated.

Collections

Definition: Collections are defined as works, historical treasures, or similar assets that are (a) held for public exhibition, education, or research in furtherance of public service instead of financial gain, (b) protected, kept unencumbered, cared for, and preserved, and (c) subject to organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collection. Items that do not meet these criteria are not considered collections and must be capitalized accordingly.

Capitalization Threshold: Collections acquired through purchase should be recorded at cost. Collections received through gift or bequest should be recorded at acquisition value.

Depreciable Life: Collections are not depreciated.

Intangible Assets

Definition: Intangible assets lack physical substance, are non-financial in nature and have an initial useful life extending beyond a single reporting period. Examples include goodwill, copyrights, licenses, trademarks, easements, and software.

Depreciable Life: Intangible assets are depreciated over their estimated useful life or in some cases may be considered to have an indefinite useful life.

Software (a type of intangible asset)

Definition: Software represents various kinds of programs used to operate computers in order to execute a specific set of commands.

Capitalization Threshold: Initial purchases of software in excess of $250,000 should be capitalized. Annual renewals and licenses should be expensed. If a purchased software is modified using more than minimal incremental effort before being put into operation, the costs of these modifications should be capitalized as outlined in GASB 51:

- Preliminary project costs, including conceptual development of requirements, evaluation of alternatives, and final selection of alternatives are <u>not</u> to be included in the depreciable cost.
- Application development costs, including the design, software configuration and interface development, coding, installation, and testing <u>should be included</u> in the depreciable cost of the asset. These costs would include the payroll and related costs association with employees involved in the installation and testing of the software. The initial licensing fee is also included in the depreciable cost.
- Post-implementation costs, including training and software maintenance (including renewal licensing fees) are <u>not</u> included in the depreciable cost. Note that licensing fees for subsequent years are typically not capitalized unless new functionality is provided and it exceeds the $250,000 threshold.

Purchased software should be recorded at cost, as outlined above. Donated software that has been modified using more than minimal incremental effort before being put into operation should be recorded at acquisition value as of the date of the gift.

Amortizable Life: Software is amortized over the lesser of five years or the actual known life of the software.

Depreciation Method

The straight-line depreciation method is used based on the date the asset is in service except for library books, which is begins depreciation mid-year (January). For Equipment, the Fixed Asset Clerk uses the date received.

Creation of Fixed Asset Records

Accounting Services records the asset for land, land improvements, buildings & building improvements, leasehold improvements, collections, and intangible assets.

The Fixed Assets Clerk records the asset for equipment (including low-value assets), vehicles, and art.

Sub-assets are used to record improvements to the main asset (i.e. building renovation). Sub-assets have their own depreciation factors (i.e. deprecation start date, life, etc.). If improvements are added to the main asset instead of creating a sub-asset then the depreciation expense is allocated over the main asset's remaining depreciable life.