

Webster University
Capitalization Policy
Effective June 1, 2012

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POLICY OBJECTIVES

- To ensure uniform understanding of the University's capitalization policy for fixed assets;
- To standardize the accounting for capital expenditures;
- To provide resource providers and others with qualitative and quantitative financial information on the deployment and use of the University resources, specifically in fixed assets.

CAPITALIZATION THRESHOLDS

Standard capitalization thresholds for capitalizing assets have been established for each major class of assets as follows:

Asset Category	Depreciation Method	Threshold	Useful Life	Yearly Rate
Buildings-Masonry/Steel – New	Straight Line	50,000	40 yr	2.50%
Buildings-Masonry/Steel – Existing	Straight Line	50,000	25 yr	4.00%
Buildings-Frame – New	Straight Line	50,000	25 yr	4.00%
Buildings-Frame – Existing	Straight Line	50,000	10 yr	10.00%
Building Improvements	Straight Line	20,000	10 – 20 yr.	5.00% -10.00%
Leasehold Improvements	Straight Line	20,000	10 – 20 yr. (or the term of the lease, whichever is shorter)	5.00% -10.00%
Equip & Machinery (Single Item)	Straight Line	5,000	5 yr.	20.00%
Equip & Machinery (Group Purchase)	Straight Line	10,000	5 yr.	20.00%
Major Instruments	Straight Line	5,000	20 yr.	5.00%
Infrastructure	Straight Line	20,000	10 – 20 yr.	5.00% - 10.00%
Land	N/A	0	N/A	N/A
Land Improvements	Straight Line	10,000	5 yr.	20.00%
Furniture & Fixtures (Single Item)	Straight Line	5,000	10 yr.	10.00%
Furniture & Fixtures (Group Purchase)	Straight Line	10,000	10 yr.	10.00%
Minor Software	Straight Line	50,000	5 yr.	20.00%
Major Software	Straight Line	250,000	10 yr.	10.00%
Vehicles	Straight Line	5,000	5 yr.	20.00%
Donated Asset	Straight Line	5,000	As Applicable	As Applicable

EXAMPLES OF EXPENDITURES TO BE CAPITALIZED

Buildings:

Purchased Buildings

Original purchase price

Expenses for remodeling, reconditioning or altering a purchased building to make it ready to use for the purpose for which it was acquired

Environmental compliance (i.e., asbestos abatement)

Professional fees (legal, architect, inspections, title searches, etc.)

Payment of unpaid or accrued taxes on the building to date of purchase

Cancellation or buyout of existing leases

Other costs required to place or render the asset into operation

Constructed Buildings

Completed project costs

Interest accrued during construction

Cost of excavation or grading or filling of land for a specific building

Expenses incurred for the preparation of plans, specifications, blueprints, etc.

Cost of building permits

Professional fees (architect, engineer, management fees for design and supervision, legal)
Costs of temporary buildings used during construction
Unanticipated costs such as rock blasting, piling, or relocation of the channel of an underground stream
Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
Additions to buildings (expansions, extensions, or enlargements)
Legal, appraisal, or other costs associated with acquiring an existing building before the purchase should be expensed

Building Improvements:

Note: For a replacement to be capitalized, it must be a part of a major repair or rehabilitation project, which increases the value, and/or useful life of the building, such as renovation of a student center. A replacement may also be capitalized if the new item/part is of significantly improved quality and higher value compared to the old item/part such as replacement of an old shingle roof with a new fireproof tile roof. Replacement or restoration to original utility level would not. Determinations must be made on a case-by-case basis.

Conversion of attics, basements, etc., to usable office, clinic, research or classroom space
Structures attached to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.
Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents
Original installation/upgrade of wall or ceiling covering such as carpeting, tiles, paneling, or parquet
Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing
Installation or upgrade of window or door frame, upgrading of windows or doors, built-in closet and cabinets
Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
Exterior renovation such as installation or replacement of siding, roofing, masonry, etc.
Installation or upgrade of plumbing and electrical wiring
Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, wiring required in the installation of equipment (that will remain in the building).
Other costs associated with the above improvements

Building Improvements to be Recorded as Maintenance Expense:

Adding, removing and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building
Improvement projects of minimal or no added life expectancy and/or value to the building
Plumbing or electrical repairs
Cleaning, pest extermination, or other periodic maintenance
Interior decoration, such as draperies, blinds, curtain rods, wallpaper
Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.
Maintenance-type interior renovation, such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections; sink and fixture refinishing, etc.
Maintenance-type exterior renovation such as repainting, replacement of deteriorated siding, roof, or masonry sections
Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an old boiler with a new one of the same type and performance capabilities
Any other maintenance-related expenditure which does not increase the value of the building

Equipment & Machinery (Single Item)

Original contract or invoice price (excluding service/maintenance contracts billed as a separate line item)
Freight charges
Import duties
Handling and storage charges

- In-transit insurance charges
- Installation charges
- Charges for testing and preparation for use
- Costs of reconditioning used items when purchased
- Parts and labor associated with the construction of equipment

Equipment & Machinery (Group Purchase)

In certain circumstances, the purchase of equipment are capitalized even though the individual unit cost is less than \$5,000. This is considered a “group purchase”. A “group purchase” is defined as an acquisition of 10 or more units of the same, identical item being made using a *single requisition*. The purchase must have a total cost of \$10,000 or greater. For example, a decision is made to upgrade a computer lab. This will require 15 new computers located in a single area. Individually the computers cost \$2,000; however, the aggregate cost of the 15 computers will be \$30,000. This purchase is capitalized as a group purchase.

Furniture

- Original contract or invoice price
- Freight charges
- Import duties
- Handling and storage charges
- In-transit insurance charges
- Installation charges
- Charges for testing and preparation for use
- Costs of reconditioning used items when purchased
- Parts and labor associated with the construction of equipment

Furniture (Group Purchase)

In certain circumstances, the purchase of furniture are capitalized even though the individual unit cost is less than \$5,000. This is considered a “group purchase”. A “group purchase” is defined as an acquisition of 10 or more units of the same, identical item being made using a *single requisition*. The purchase must have a total cost of \$10,000 or greater. For example, your department is remodeling common areas in your building. A decision is made to have the same type of chairs throughout the entire area. This will require 60 chairs. Individually the chairs cost \$200; however, the aggregate cost of the 60 chairs will be \$12,000. This purchase is capitalized as a group purchase.

Work station with component pieces costing less than \$5,000 per unit that, when assembled, function as a stand alone unit. It does not include the stand-alone chairs, tables or file cabinets, even if these items are purchased to accompany a modular work unit.

Infrastructure:

- Communications Systems - fiber optic cabling, telephone distribution systems (between buildings), radio or television transmitting tower
- Pavement Systems - highways, roads, streets, curbs, gutters, sidewalks, fire hydrants, guard rails
- Utilities - gas distribution systems, electric, water, gas (main lines and distribution lines, tunnels), chilled water, geothermal, septic systems
- Other - street signage, light system (traffic, outdoor, street, etc.)

Land :

- Purchase price or fair market value at time of gift
- Commissions

Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental Assessments, etc.)
Land excavation, fill, grading, and drainage
Demolition of existing buildings and improvements (less salvage)
Removal, relocation, or reconstruction of property of others (railroad, telephone and power lines)
Interest on mortgages accrued at date of purchase
Accrued and unpaid taxes at date of purchase
Other costs incurred in acquiring the land
Water wells (includes initial cost for drilling, the pump and its casing)
Right-of-way

Land Improvements:

Fencing and gates
Landscaping
Parking lots/driveways/parking barriers
Outside sprinkler systems
Recreation areas and athletic fields (including bleachers)
Golf courses
Paths and trails
Swimming pools, tennis courts, basketball courts
Initial planting of trees, shrubs, seed, sod, etc.
Fountains
Plazas and pavilions
Retaining walls

Software - Application Development Phase:

External direct costs of materials and services (third party fees for services)
Costs to obtain software from third parties
Travel costs incurred by employees in their duties directly associated with development
Payroll and payroll-related costs of employees directly associated with or devoting time in coding, installing or testing
Interest costs incurred during the application development

Works of Art and Historical Treasures:

Collection of rare books, manuscripts
Maps, documents and recordings
Works of art such as paintings, sculptures, and designs
Artifacts, memorabilia, exhibits
Unique or significant structures

DEPRECIATING CAPITAL ASSETS

Capital assets are real or personal property that have a value equal to or greater than the capitalization threshold for the particular classification of the asset and have an estimated life of greater than one year.

Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible. See "inexhaustible asset," for a definition. The straight-line depreciation method (historical cost divided by useful life) will be used by Webster University.

Leasehold Improvements Depreciation Methodology:

Leasehold improvements are capitalized by the lessee and are amortized over the shorter of (1) the remaining lease term, or (2) the useful life of the improvement. Improvements made in lieu of rent should be expensed in the period incurred. If the lease contains an option to renew and the likelihood of renewal is uncertain, the leasehold

improvement should be written off over the life of the initial lease term or useful life of the improvement, whichever is shorter.

DEFINITIONS

Acquisition Cost - Assets should be recorded and reported at their historical costs, which include the vendor's invoice (plus the value of any trade-in or allowance, if reflected on the invoice) initial installation cost (excluding in-house labor), modifications, attachments, accessories or apparatus necessary to make the asset usable and render it into service. Historical costs also include ancillary charges such as freight and transportation charges, site preparation costs and professional fees.

Additions and Improvements - Capital outlays that increase the capacity or efficiency of the asset. A change in capacity increases the level of service provided by an asset. For example, additional lanes can be added to a highway or the weight capacity of a bridge could be increased. A change in efficiency maintains the same service level, but at a reduced cost. For example, a heating and cooling plant could be reengineered so that it produces the same temperature changes at reduced cost.

Assets Held in Trust - Capital assets held by Webster University on behalf of a non-university entity (such as art collections owned by families, estates and others) and that are under the temporary control of Webster University should be recorded as assets held for others by the Foundation until returned to the owners.

Building - A structure that is permanently attached to the land with a foundation, has a roof, is partially or completely enclosed by three walls, has one utility other than electricity and is not intended to be transportable or moveable which is used for housing people, animals, plants or equipment. Equipment permanently affixed to buildings should be included as part of the building.

Building Improvements - Capital events that increase the value of a building. A building improvement should be capitalized as a betterment and recorded as an addition of value to the existing building if the expenditure for the improvement is at the capitalization threshold.

Computation of Gain or Loss from Sale of Assets

To compute a gain or loss, proceeds received must be subtracted from the asset's net book value.

Example:

Asset's Historical Cost	\$10,000
Less Accumulated Depreciation	(7,000)
Net Book Value	\$ 3,000
Subtract Proceeds Received	(2,000)
Loss from Sale of Asset	\$ 1,000

Components – Frequently equipment components are purchased from more than one vendor and assembled by University personnel. If the individual components cannot be moved or used independently, and if the assembled item meets the capitalization criteria, each component should be recorded in the property management system and each will be assigned the same asset ID number.

Net Book Value – An asset's historical cost less the accumulated depreciation.

Computer Software (Not Licensing Agreements)- Colleges and universities are now required by the National Association of College and University Business Officers to adopt the AICPA Statement of Position 98-1, Software Developed or Obtained for Internal Use (SOP 98-1). The requirements of this document are effective for all higher education institutions for fiscal years beginning June 15, 1999, with earlier application recommended.

Internal Use Software - For software to be considered for internal use, the university must meet the following tests - the software must be acquired, internally developed or modified solely to meet the university's internal needs, and during the software's development or modification, the university must not have a substantive plan to market the

software externally to other organizations. Capitalization of Software Costs - Software implementation generally involves three phases. These phases and their characteristics are as follows:

1. Preliminary project phase - when conceptual formulation of alternatives, the evaluation of alternatives, determination of existence of needed technologies and final selection from among the alternatives is made.
2. Application development/implementation phase - Design of chosen path including software configuration and software interfaces, coding, installation of computer hardware, testing, including parallel processing phase, costs of training, employee and consultant travel expenses and consultant fee's.
3. Post-implementation/operation phase - training and application maintenance activities incurred after phase two is complete.

Costs associated with the preliminary project and the post-implementation/operating phases should be expensed as incurred. Internal and external costs associated with the application development phase should be capitalized. Costs to develop or obtain software that allows for access or conversion of old data by new information systems should also be capitalized. General and administrative costs and overhead expenditures associated with software development should not be capitalized as costs of internal use software.

Capitalization of costs should begin when the preliminary project phase is complete and the university's management has implicitly or explicitly authorized or commits to funding the software project with the intent it will be completed and used to perform its planned functions. Capitalization should cease no later than the time at which substantial testing is complete and the software is ready for its intended purpose or rendered in service.

Construction in Progress - The economic construction activity status of buildings and other structures, infrastructure, additions, alterations, reconstruction, installation, and maintenance and repairs, which are substantially incomplete.

Demolition Costs as Operating Expense – When land is already owned and contains a building that has been declared to have no further use, the building is deemed to be “an impaired asset”. For example, the building may be unsafe or is no longer needed for operations. A decision is made to demolish the building for safety reasons and the land will be left cleared. The buildings net book value should be written down to zero and the cost of demolishing such a building would be charged to expense as incurred.

Demolition Costs as Cost of Land – When land and building are purchased, and when at that time the building is not intended for use and will be demolished, the building demolition costs should be capitalized as part of the acquisition cost of the land. These costs are necessary site preparation costs to prepare the land for its intended use.

Demolition Costs as Cost of Building – When an existing building is being demolished for the purpose of constructing a new building on the same site, the net book value of the existing building should be written down to zero. The demolition costs should be capitalized as part of the cost of the new building as these costs are attributable to creating the new construction project.

Donated Assets - Donations are defined as voluntary contributions of Resources. Donations should be reported at fair value at the time of acquisition plus ancillary charges, if any. Fair value equals the amount at which an asset could be exchanged in a current transaction between willing parties.

Donations must be recorded and reported at fair value on the date of acquisition based on a reasonable market study. Recipients of donated capital assets will recognize the donation and related revenue when the transaction is complete and the assets are received.

In some cases, donated capital assets are given with the stipulation (time requirement) that the assets cannot be sold, disbursed or consumed until a specified number of years have passed or a specific event has occurred. For such cases, the capital asset should be reported in the statement of Net Assets as "Net Assets -- Restricted" as long as the restrictions or time requirements remain in effect.

Equipment - fixed or movable tangible assets to be used for operations, the benefits of which extend beyond one year from date of acquisition and rendered into service. Equipment is depreciated over five years.

Group Purchase – A one-time purchase against one particular purchase order or delivery order (i.e., one unique purchase/delivery number). The cost of each separate delivery order when there are multiple purchase/delivery numbers against one contract **should not** be summed together to determine if there is a group purchase.

Jointly Funded - Equipment paid for jointly by the university and other governmental entities should be capitalized by the entity responsible for future maintenance.

Leased Equipment - Leased equipment should be capitalized if the lease agreement meets any one of the following criteria:

The lease transfers ownership of the property to the lessee by the end of the lease term.

The lease contains a bargain purchase option.

The lease term is equal to 75 percent or more of the estimated economic life of the leased property.

The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90 percent of the fair value of the leased property.

Leases that do not meet any of the above requirements should be recorded as an operating lease.

Exhaustible collections or items - Items whose useful lives are diminished by display or educational or research applications and are depreciated.

Inexhaustible collection or items - Items whose economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long. Because of their cultural, aesthetic, or historical value, the holder of the asset applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value and is not depreciated.

Infrastructure - Assets that are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Infrastructure assets are often linear and continuous in nature.

Infrastructure Improvements - Capital events that materially extend the useful life or increase the value of the infrastructure, or both. Infrastructure improvements should be capitalized as a betterment and recorded as an addition of value to the infrastructure if the improvement or addition of value is at the capitalization threshold or increases the life or value of the asset by 25 percent of the original cost or life period.

Maintenance Costs - Costs that allow an asset to continue to be used during its originally established useful life, and should be expensed in the period incurred.

Preservation Costs - Costs that are generally considered to be those outlays that extend the useful life of an asset beyond its original estimated useful life, but do not increase the capacity or efficiency of the asset. Preservation costs should be capitalized.

Land - The surface or crust of the earth, which can be used to support structures, and may be used to grow crops, grass, shrubs, and trees. Land is characterized as having an unlimited life (indefinite) and is not depreciated. Donated land should be treated like donated assets and is not depreciated.

Land improvements - Betterment's, site preparation, and site improvements (other than buildings) that ready land for its intended use. The costs associated with improvements to land are added to the cost of the land and are not depreciated.

Leasehold Improvements - Construction of new buildings or improvements made to existing structures 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.

Other Improvements - Depreciable improvements made to a facility or to land that should be capitalized as betterments if the improvement is at the capitalization threshold or the expenditure increases the life or value of the asset by 25 percent of the original cost or life period.

Sale of Capital Assets – When an asset is sold, a gain or loss must be recognized when:

cash is exchanged and the amount paid does not equal the net book value of the asset
cash is not exchanged and the asset is not fully depreciated or has a residual value

A gain or loss is not reported when:

cash exchanged equals the net book value and the asset does not have a residual value
cash is not exchanged and the asset is fully depreciated and has no residual value

Trade-in of Assets - Similar assets - surplus or salvage property can be offered as a trade-in on new property of the same general type if the exchange is in the best interest of the university. When recording a trade-in of similar assets, agencies must use a book value basis for the assets surrendered or acquired.

When assets are exchanged and no monetary consideration is paid or received, the cost of the asset acquired is recorded at the carrying (book) value of the asset surrendered.

Where monetary consideration is given, the new asset must be recorded at the sum of the cash paid plus the book value of the asset surrendered.

Works of Art and Historical Treasures - Collections or individual items of significance that are owned by the university which are not held for financial gain, but rather for public exhibition, education or research in furtherance of public service. Collections or individual items that are protected and cared for or preserved and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. See "Exhaustible" and "Inexhaustible" definitions.