

CAPITALIZATION POLICY

PURPOSE

To establish a financial accounting capitalization policy for land, land improvements, buildings, equipment, library holdings and intangible assets.

POLICY

This policy applies to land, land improvements, buildings, equipment, library holdings and intangible assets used in the operations of the college. Capitalized assets include the following:

1. Land – The capitalization of costs includes all costs connected with acquisition and incurred to prepare the land for its intended purpose. These costs include but are not limited to: purchase price, real estate commissions, legal fees, escrow fees, title investigations, title insurance, surveying, clearing, draining and filling land. There is no threshold for the capitalization of land.

If the utilization of existing buildings on the land occurs, allocation of a portion of the cost to land and a portion to buildings becomes necessary. The fair market value of the land should be recorded, and the value assigned to the building is the difference between total cost and the amount capitalized as land.

If buildings are razed to prepare the land for its intended purpose, the cost of razing the buildings is capitalized as land.

2. Land Improvements – The capitalization of costs includes the cost of landscaping, utility systems, paving of parking lots and outdoor public recreation fields with a cost greater than \$5,000. The capitalization of all land improvement costs associated with newly constructed buildings should occur.
3. Easements – An easement is the interest in land owned by another that entitles its holder to a specific use or enjoyment (right to use the land). Easements may have an inexhaustible life or a fixed term life. Only the fixed term easement is depreciable. The capitalization of all costs or value associated with an easement lacking a threshold is necessary.
4. Buildings – new construction. Capitalization costs include but are not limited to the cost of professional services, materials, labor and site preparation. The threshold to capitalize Buildings is \$100,000.

If the building is financed with external debt, the capitalization of net interest expense and the amortization of loan origination costs incurred during the construction period should occur.

5. Building Renovations – The capitalization of Building improvements should occur if they are significant alterations or structural changes that a) cost greater than \$100,000 and b) meet one or more of the following conditions:
 - a. Extends the useful life of the building beyond what was originally scheduled.
 - b. Changes the use or purpose of the original space.
 - c. Expands the total square footage of the building.

The cost of any work required on the existing building, such as removing walls should also be capitalized as part of the renovation cost.

6. Leasehold Improvements – These are improvements made to lease property that will revert to the lessor at the expiration of the lease. This can include construction of new buildings or building improvements. The threshold for leasehold improvements is \$5,000.
7. Equipment – The capitalization of the cost of purchased equipment or the value of donated equipment should occur if meeting all the following criteria:
 - a. The item cost or value is at least \$5,000.
 - b. The useful life of the item is more than one year.
 - c. The item is able to function by itself.
8. Library Holdings – Capitalized library holdings include bound volumes, periodicals, serial titles, microforms, electronic books and electronic subscriptions with perpetual access. There is no threshold for library holdings.
9. Internally Generated Software (intangible asset) – Computer software that is internally generated or purchased or licensed and modified using more than minimal incremental effort before being put into operation should be capitalized if the cost is greater than \$1,000,000.
10. Other Intangible Assets – These are assets that have no physical characteristics but are of value because of the advantages or exclusive privileges they provide to the college. Such items include: patents, copyrights, trademarks, or licenses. The capitalization threshold for such assets is \$25,000.
11. Infrastructure – These are assets that are long-lived capital assets that are stationary in nature and normally preserved for a significantly greater number of years than most capital assets. These may include roads, bridges, tunnels, or water and sewer systems. The threshold for infrastructure is \$5,000.
12. Assets Under Construction – An asset under construction reflects the economic construction activity status of buildings and other structures, infrastructure, additions, alterations, reconstruction, or installation of assets with are substantially incomplete. These assets should be recorded and not depreciated until the asset is complete or in use.

13. Capital Leases – The leased property will normally be recorded as a capital asset, as well as the lease obligation. Leased property that is valued at \$5,000 or more will be recorded as a fixed asset.

Policy History:

July 7, 2014
December 3, 2012

PROCEDURE: 335-1

CAPITALIZATION OF ASSETS

Procedures:

1. Purchases meeting capital asset definitions and thresholds will be recorded as Capital Assets in accordance with the State of Arkansas Department of Finance and Administration's Capital Asset Guidelines.
2. As payments are made for purchases throughout the year, Accounts Payable will analyze each purchase and use appropriate AASIS codes as needed for each type of purchase. Purchases that are deemed to meet Capital Asset Guidelines, will be paid using AASIS codes to indicate what type of asset these should be recorded as.
3. Each month, a report on the check register and codes utilized is printed and checked for specific asset codes. These may be identified with certain AASIS commitment item codes, but if not deemed to meet threshold limits, these purchases may still not be capitalized.
4. Once a purchase is verified to be a capital item, a copy of the check, invoice, purchase order, and any other backup documentation will be gathered to make the appropriate journal entry to record the Fixed Asset.
5. Some capitalized items that are not individual in nature, such as on-going Construction in Progress, may not be recorded each month, but may be held until the end of the year for recording all-together. If this is the case, a report from the appropriate Plant Fund code is printed and analyzed and each check, invoice, etc. that makes up the Construction in Progress is gathered for recording of the Fixed Asset.
6. Journal entries to record Fixed Assets are debited to the specific fixed asset account and credits to Transfers to Net Investment in Plant. A second set of journal entries are also required to debit Transfers to Net Investment in the appropriate Fund that the payment was recorded in and credit the Expense code.

7. Fixed Assets are then appropriately summarized in the subsidiary records for the type of Fixed Asset that is recorded, i.e. Land, Intangible Assets, Equipment, Library Holdings, Other Improvements, Buildings, and Construction in Progress (temporary holding account).
8. In accordance with Capital Asset Guidelines, certain assets are depreciated on a monthly basis and depreciation will be figured in the subsidiary and recorded appropriately.

Procedure History:

June 15, 2016
