

**Christopher Newport University  
Asset Capitalization Policy**

**I. SCOPE**

This policy applies to all Christopher Newport University organizations, faculty, and staff at all University locations, owned or leased.

**II. POLICY STATEMENT**

This administrative policy describes the general guidelines for capitalization in order to exercise appropriate stewardship and accountability for all capital assets regardless of the method of acquisition (purchase, lease, fabrication, donation (Appendix F), borrowings, etc.) or the source of funding. This policy complies with federal government and Commonwealth of Virginia policies for recording capital assets in the University's financial records. All assets meeting the definitions and valuation thresholds in section III of this policy will be recorded in the University's financial records and depreciated on its financial statements in accordance with generally accepted accounting principles. Assets obtained by the University include those that are purchased with university or grant funds, or acquired by other means. Title to or ownership of all Commonwealth or University property shall be deemed to be vested in Christopher Newport University unless stipulated otherwise by the funding source. Title does not rest with any department or employee, regardless of the source of funds or donations associated with the acquisition. This policy imposes the requirement that proceeds from sales of works of art or historical treasures, as defined in section III, will be used to acquire other items for collections.

**III. DEFINITIONS AND VALUATION**

**A. Capital assets** include land, land improvements, infrastructure, buildings, building improvements, construction in progress, furniture and equipment, software, library books, works of art and historical treasures.

**B. Controllable property** is tangible property with a value of between \$1,000 and \$4,999 and/or with an expected life of greater than one year. This property is not depreciable. Firearms, cellular telephones, PDA's and other such items as designated after consultation with the Comptroller are deemed controllable regardless of their dollar value.

**C. Depreciation** is the process of allocating the cost of exhaustible capital assets over a period of time, rather than deducting the cost as an expense in the year of acquisition.

**D. Useful Life** is the length of time that a depreciable asset is expected to be useable.

**E. Valuation** of capital assets is the amount, expressed in U. S. dollars, assigned in the financial records as the recorded value of a long-lived asset.

**F. Land**

1. Land acquired by purchase is recorded at cost and includes the amount paid for the land itself and all related acquisition costs.
2. Land acquired by gift or bequest is recorded at the fair market value at the date of acquisition.
3. When land is acquired with buildings erected thereon, total cost is allocated between land and building in reasonable proportion at the date of acquisition. If the transfer document does

not show the allocation, other sources may be used, such as an expert appraisal or real estate tax assessment records.

4. Land improvements with a total cost greater than \$100,000 and an estimated life greater than one year will be capitalized. Examples of such improvements include (but are not limited to) landscaping, parking lots, athletic fields, tennis courts, fencing, and outdoor lighting.

#### **G. Infrastructure Assets**

1. Infrastructure assets are long-lived assets that can be preserved for a significantly greater number of years than most capital assets and that are normally stationary in nature. Examples include technological infrastructure, roads, bridges, tunnels, utility distribution systems, water and sewer systems and dams. They do not include buildings, driveways, parking lots or any other items that are incidental to the property or access to the property. Infrastructure assets with a total cost greater than \$100,000 and an estimated life greater than one year will be capitalized.

#### **H. Buildings and Building/Leasehold Improvements**

1. Buildings acquired by purchase are recorded at cost and include all permanent structures and all integral fixtures, machinery, and other appurtenances that cannot be readily removed without disrupting the basic building structure or services to the building.

2. Buildings acquired by gift or bequest are recorded at the fair market value at the date of acquisition.

3. When buildings are constructed, all identifiable costs are included, such as (but not limited to) contract costs, insurance and interest costs incurred during the period of construction. Costs are accumulated in Construction in Progress until the date of beneficial occupancy.

4. Structural remodeling/renovation and additions are capitalized when they enhance the use of, or extend the life of the building beyond its original estimated useful life, and the total cost equals or exceeds \$100,000 or 20% of the building's cost, whichever is less. Improvements greater than or equal to \$100,000 may be capitalized as a separate "Building" asset.

5. If the building improvement results in an improvement or replacement of an existing "Equipment" item and is greater than or equal to \$50,000, the new asset may be capitalized as a separate "Equipment" asset.

#### **I. Construction in Progress**

1. Construction in progress includes all expenditures directly related to building construction, renovations, or additions. These costs include contract costs (materials, labor, and overhead) as well as professional fees and interest incurred during the construction period.

2. Upon completion, construction-in-progress costs are transferred to buildings, improvements or infrastructure.

#### **J. Furniture and Equipment**

1. Capitalization of furniture and equipment includes all personal property that is (i) not permanently affixed to land or buildings, (ii) has a useful life greater than one year, and (iii) has a unit cost of \$5,000 or more. Personal property acquired for resale is not to be recorded as a capital asset but as merchandise inventory.

2. A unit of equipment is defined for purposes of this policy as an individual item, or group of items, which is usable for its intended function and which cannot be separated without a diminishment in the usability of the item for its intended purpose.

3. Capitalization of accessory items is based on the following guidelines:

- (a) Accessory equipment should be included as a portion of the capitalized cost of the capital item if it was invoiced at the time of the initial purchase.
- (b) Accessory equipment purchased with the intent of using it interchangeably with two or more items should be capitalized and recorded as a separate item of equipment, if it meets the dollar threshold.
- (c) Accessory equipment acquired subsequent to the purchase of the parent item must meet the capitalization criteria separately.

4. For purchased equipment, the valuation is the net amount paid to the vendor, which is the invoice price less all discounts (except trade-in allowances). Freight and installation costs also are included if they are shown on the original invoice, or if they are readily available on related freight bills.

5. The rebuilding of equipment will be capitalized if the total rebuilding costs exceed \$5,000 and the rebuilding project effectively restores the equipment to a like-new condition and/or significantly extends the item's useful life or markedly increases the item's net book value.

6. Leased equipment is capitalized if it meets the capitalization criteria outlined in this policy and the Financial Accounting Standards Board (FASB) Standard No. 13, (November 1976). If any one of the following conditions exists at the initiation of the lease then the lease is to be treated as a capital lease:

- (a) The lease transfers ownership of the leased asset to the lessee by the end of the lease term. There must be a provision in the lease contract that legal ownership will be transferred.

- (b) The lease contains a bargain purchase option (BPO). The lease must have a provision that gives the lessee the right (an option) to buy the leased asset at a price that is significantly lower than the expected market value at the option date.

- (c) The lease term is equal to 75% or more of the total estimated economic life of the leased asset.

- (d) The present value of the minimum lease payments at the inception of the lease is at least 90% of the market value of the leased asset at that time. Minimum lease payments are the rental payments that the lessee is obligated to make in connection with the leased property. If the lease contains a BPO, the minimum lease payments equal the minimum rental payments plus the BPO amount. If the lease does not contain a BPO, the minimum lease payments include: (1) the minimum rental payments required by the lease over the lease term; (2) any residual value guarantee by the lessee at the expiration of the lease term; and (3) any penalty payment the lessee would be required to make if the lease is not renewed or extended at the expiration of the lease term.

7. Fabricated equipment, i.e., final operating units produced by combining component systems and subsystems are capitalized at the total cost of the component parts if the final assembly meets the three capitalization criteria stated in section 3a. above.

#### **K. Computer Software**

1. Computer software developed or obtained for internal use should be capitalized if the cost of the license is \$10,000 or more and the software license has a useful life of greater than one year.

2. Software is considered to be developed or obtained for internal use if both of the following tests are met:

- a. The software is purchased, internally developed, or modified solely to meet the entity's internal needs; and
  - b. During the software's development or modification, no substantive plan exists or is being developed to market the software externally.
  - c. Software development generally involves three phases, as follows:
    - i. Preliminary project phase. Conceptual formulation of alternatives, evaluation of alternatives, determination of existence of needed technologies, and final selection of alternative.
    - ii. Application development stage. Design of chosen alternative, including software configuration and interfaces, coding, installation of computer hardware, and testing.
    - iii. Post-implementation/operation phase. Training and application maintenance activities.
3. Costs associated with the preliminary project and post-implementation/operation phases are expensed as incurred. Costs (internal and external) associated with the application development stage are capitalized.
  4. Capitalization of costs begins when the preliminary phase is complete and the University's management has implicitly or explicitly committed to funding a software project with the intent it will be completed to perform the planned functions.
  5. Capitalization ceases no later than the time when substantial testing is complete and the software is ready for its intended purpose or rendered in service.
  6. Examples of expenditures that should be capitalized during the application development stage include:
    - a. External direct costs of materials and services consumed in developing or obtaining internal-use computer software (e.g., fees paid to third parties for services provided to develop the software during the application stage), costs of computer software purchased from third parties, and travel expenses of employees incurred in their duties directly associated with developing software;
    - b. Payroll and payroll-related costs (e.g., employee benefits) for employees who are directly associated with and devote time to the internal-use computer software; and
    - c. Interest costs incurred while developing the software
  7. General and administrative cost and overhead costs are not capitalized; they are expensed as incurred.

#### **L. Library Books and Materials**

When library books and materials are considered to have a useful life of more than one year, they are capitalized. Because library collections consist of a large number of items with modest values, they are reported on a composite basis. The composite basis records net additions and deletions to reflect an overall increase or decrease in the value of the collection.

#### **M. Works of Art and Historical Treasures**

1. Works of art and historical treasures, whether they are held as individual items or in a collection, are capitalized if their purchase cost or fair market value at the time of donation is \$5,000 or greater.
2. A collection is defined as those items that are:
  - a. Held for public exhibition, education, or research in furtherance of public service, rather than financial gain;
  - b. Protected, kept unencumbered, cared for, and preserved; and

c. Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections (see section II, Policy Statement, above).

#### **IV. DEPRECIATION AND USEFUL LIFE**

All assets classified as capital, which require depreciation in accordance with generally accepted accounting principles must use reasonably accurate useful lives as established by this policy and shall be depreciated using the straight line method.

The useful life of University assets will be determined in accordance with the commodity nomenclature codes developed by the Commonwealth of Virginia Department of Accounts and describe in CAAP manual topic 30605.

The useful lives established in this topic are generally in conformity with those established by the Internal Revenue Service and realistically conform to the useful lives of the major University asset types which include, but are not limited to, buildings, furniture, equipment, computers, infrastructure, library materials and other improvements.

While many of the assets used by the University have use patterns that are in line with the available nomenclature code structure, a review should be done annually to determine whether or not an adjustment to the remaining depreciable life of an asset should be made.

The method used to determine the assets with use patterns outside of the normal lives indicated in the nomenclature codes will include a review of fully depreciated assets that are still in use by the University. This process will spotlight potential increases in the useful lives of similar assets.

In the event that an asset is determined to suffer from abnormal wear prior to being placed in service or during service, the useful life should be shortened appropriately.

#### **V. EQUIPMENT TRUST FUND**

The Equipment Trust Fund Program administered by SCHEV provides an additional funding source that allows higher education institutions to purchase equipment for instructional use. In addition to general rules applicable to all equipment, specific guidelines apply to the acquisition, maintenance, and disposal of ETF equipment. Failure to satisfy these requirements could jeopardize future allocations of ETF monies. Refer to specific ETF guidelines listed below:

##### **ALL ETF EQUIPMENT:**

- Must be used in programs of instruction, research, and academic support throughout its useful life or until ownership passes to CNU.
- Is eligible for surplus only after ownership passes to CNU.
- Lost or stolen items must be replaced with departmental funds.
- Must be an individual item that costs at least \$500 or must be a functional unit where the aggregate cost of individual components is \$500 or greater. Components of a functional unit perform a specific task and must remain assembled as a unit.
- Must be tagged within 45 days of receipt for identification and tracking purposes.
- Must be maintained in good working condition by the department.

## **VI. INVENTORY**

A physical inventory is done on all equipment each year. Departmental asset inventory reports are forwarded to the designated responsible party as recorded in the fixed asset system. The designated person is responsible for physically locating and verifying all items listed on their inventory report. Any discrepancies are to be submitted back to the Business Office with proper documentation and paperwork substantiating the requested removal or correction to the inventory report. On a biennial basis an inventory is conducted by the Warehouse Manager and his staff. The assets tested during this inventory are derived by using the sampling inventory method.

## **VII. REMOVAL OF CAPITAL ASSETS FROM ASSIGNED LOCATION**

There are instances that necessitate the removal of capital assets from a previously assigned location. The following are a few of those instances:

1. Permanent or long-term relocation to another department.
2. Temporary relocation to another department.
3. Off campus use of an asset for the pursuit of official business of the University.
4. Removal of equipment to the warehouse for re-issue or for salvage.
5. Assets have been lost or stolen.

In each of these instances appropriate documentation and paperwork must be completed and forwarded to the Business Office to facilitate the proper adjustments to the fixed assets system. Samples of these forms are attached in Appendices A-E.

## **VIII. AMENDMENTS AND ADDITIONS**

All amendments and additions to this Administrative Policy are to be reviewed and approved by the University Comptroller.

## **IX. EFFECTIVE DATE**

The policies herein are effective July 1, 2009. This Administrative Policy shall be reviewed and revised, if necessary, annually, to become effective at the beginning of the University's fiscal year, unless otherwise noted.