Bowdoin

Bowdoin Finance Policy Manual

Policy Title	Effective Date	Revision Date	Created by	Approval Signature
Capitalization Policy	May 30, 2008	May 19, 2011	Matt Orlando, Controller	

Contents

1. Purpose

The purpose of this policy is to document the process for capitalizing certain expenditures, to provide guidelines for the capitalization of major expenses related to acquisition, construction, and alteration of capital assets, and to establish depreciable lives for each major class of fixed assets in conformity with Generally Accepted Accounting Principles (GAAP).

2. Scope

This policy applies to all plant expenditures of the College, defined as assets related to the acquisition and maintenance of land, buildings and equipment.

3. Responsibility

The Controller has overall responsibility for ensuring that Plant expenses are properly identified and accounted for in accordance with this policy.

On an annual basis, Bowdoin's Director of Facilities Operations & Maintenance, Controller and Financial Analyst will review the list of current projects and approve amounts scheduled for capitalization.

The Financial Analyst will confer with IT project managers on a case by case basis to ensure proper tracking of expenditures and capitalization of software projects.

4. Definitions

Capital Projects – a capital project a) extends the life of a physical facility by more than five years, b) incurs total costs that exceed $50,000, and/or c) materially increases the market value of an existing facility. Examples include projects to construct new buildings, enlarge or structurally renovate buildings, or install major equipment/fixtures that become permanent additions to facilities. Capital projects are often more than a year in duration and therefore are maintained in the Financial Edge system on a multi-year reporting basis. These accounts are known as "project accounts" and are recorded in the six-digit range 880000 – 885999.

Capital Renewal - any change to a pre-existing capital asset (i.e., land, buildings, and infrastructure) that extends its expected life or enhances its performance beyond its original capabilities. Examples include installation of air conditioning in a building that was not air conditioned, partitioning of a classroom into offices, expansion of a paved parking lot, improved lighting, replacements of major building systems or components and infrastructure assets (e.g. roofs, boilers, steam distribution systems, drainage systems, water systems), upgrades for compliance with OSHA and other safety regulations. Capital renewal projects are expected to be completed within a fiscal year and are therefore maintained in the Financial Edge system on a fiscal year reporting basis. These projects are recorded in the six-digit range 285000 – 289999.

Fixed Equipment - Service equipment permanently attached to a structure, which cannot be removed without the need for costly or extensive repairs to the structure. Examples include electrical lighting and power fixtures, elevators, heating and ventilation, air conditioning, sprinkling and fire protection systems, casework, etc.

Library Books & Reference Materials – includes bound volumes, periodicals, serial titles and microform. Rare books that are considered "collections," similar to works of art or historical treasures, are treated as Special Collections (see definition below).

Major Maintenance Projects - restoration of a deteriorated capital asset to its original condition (excluding normal wear and tear). Major maintenance projects are expensed *regardless of the individual dollar amounts involved in the project*. Examples include painting the exterior of a building, replacing worn parts on a piece of equipment, patching a leaky roof or a section of torn carpet, maintenance of parking lots, tuck pointing a building, repairing water/sewer systems. Major maintenance projects are expected to be completed within a fiscal year and are therefore maintained in the Financial Edge system on a fiscal year reporting basis. These projects are recorded in the six-digit range 285000 – 289999.

Moveable Equipment - Moveable property having a useful life of two (2) years or longer, which retains its identity as a separate and identifiable item. An item loses specific identity when attached as a component part of another item or attached as a permanent part of a building. Examples include equipment, furniture, furnishings, fixtures, machinery, instruments, and vehicles.

Special Collections - Examples include collections of rare books and manuscripts; maps, documents and recordings; works of art such as paintings, sculptures and designs; artifacts, memorabilia, exhibits and other unique and significant structures held for public exhibition, education or research rather than for financial gain. All special collections are subject to College policy requiring the proceeds of items that are sold to be used to acquire other items for collections.

5. Capitalization Thresholds & Determinants by Category

5.1. Land

All land purchases, gifts, or bequests are capitalized, regardless of amount. The College must have title to the land before it is capitalized. The capitalized cost of land purchased includes 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 is recorded at fair market value as of the date of the gift or bequest. The purchase of easements should also be recorded as land.

5.2. Land Improvements

Land improvement projects in excess of $5,000 are capitalized. Costs included are fencing, paving, roadways, walkways, parking facilities, retaining walls, shrubs, water lines, yard lighting, etc. Land improvements fall into one of two categories:

a. Inexhaustible- Expenditures for land improvements that do not require maintenance or replacement; expenditures to bring land into condition to commence erection of structures; expenditures that do not deteriorate with use or the passage of time.
b. Exhaustible- Other land improvements that are part of a site, but which require maintenance or replacement, such as parking lots, landscaping, and fencing.

5.3. Buildings and Building Improvements

Capital projects and capital renewal projects are considered complete on the date the building or structure is placed in service. All construction-in-progress costs are transferred to the appropriate asset category and depreciation is calculated according to the half-year convention. The in-service date of a building is typically the date that the Certificate of Occupancy is obtained.

Capitalized costs include the contract price, engineering, architectural, project manager salaries and attorney's fees. Fixed equipment becomes part of a structure after installation and may be capitalized as part of a newly constructed building or building improvement regardless of individual dollar amounts.

Outstanding retainage for any building project that has been placed in service in the current fiscal year is accrued for as a project expense at year end and included in the capitalized total of the asset. In the event that the final retainage bill differs from the recorded accrual, the difference is booked to operations and no adjustment is made to the capitalized asset’s book value.

5.4. Real Estate Purchases

Real estate purchases are initially recorded in the plant ledger as a project expense (project 880903). Once all costs associated with the purchase are captured, a capitalizing entry is made to remove them from the Statement of Activities and record as a capital asset. The total purchase price is allocated between land and building based on the relative appraised values of each, when available, or the most recent tax assessment.

5.5. Moveable Equipment

Purchases greater than $5,000 are capitalized; however, moveable equipment (e.g. furniture) may be capitalized as part of a newly constructed building or a building improvement regardless of individual dollar amounts. To ensure appropriate capitalization:

1. Equipment is initially recorded in the Financial Edge as an expense to the department making the purchase. On a monthly basis, Controller's Office staff reviews all invoices greater than or equal to $5,000 and produces a list of invoices to analyze for capital equipment purchases.
2. As a general rule, individual invoices making up a purchase must exceed $5,000 to be included for capitalization. However, if it is clear from the detail review that a single piece of equipment costing more than $5,000 was billed from several invoices, then it is capitalized. Alternatively, if an invoice in excess of $5,000 is actually an accumulation of a number of pieces of equipment valued individually at less than $5,000, then it is *not* capitalized.
3. The capitalization entry is made in the plant ledger, thus not affecting the individual department's budget, but allowing appropriate capitalization for financial statement purposes.
4. The capitalized cost includes all expenditures incurred to purchase the equipment and prepare it for its intended use. This includes one-time charges for freight and handling, insurance on the equipment while in transit, cost of special foundations if required, assembling and installation costs, and blueprint and development costs.

5.6. Leased Equipment

The College generally does not enter into capital lease agreements except in special circumstances. In the event the College enters into a capital lease, the asset should be capitalized at the net present value of the lease payments and recorded in the fixed asset system in the same manner as other purchased assets and corresponding liabilities are recorded. Payments related to operating leases should be expensed.

Leased equipment should be capitalized if the lease arrangements meet any one of the requirements of Statement of Financial Accounting Standards No. 13, as follows:

- 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.

5.7. Leasehold Improvements

The cost of capital improvements made to College-leased property may be capitalized and depreciated over the life of the lease (or useful life of improvements if shorter).

5.8. Library Books and Reference Materials

The College does not capitalize these items. In general, individual books and reference materials fall below the College's threshold for capitalization.

5.9. Artwork & Special Collections

The College does not capitalize its artwork or collections. In accordance with SFAS 116, proceeds from the sale of artwork and collection items are used to acquire other artwork or collection items. Please refer to the College's Museum of Art and Arctic Museum Deaccession policies for more information.

5.10. Software

The College capitalizes the costs of computer software developed or obtained for internal use for institutionally significant systems only. Accordingly, computer software developed or obtained for internal use with a cost in excess of $50,000 should be capitalized.

For software to be considered developed or obtained for internal use, both of the following tests must be met:

- The software must be acquired, internally developed, or modified solely to meet the College's needs; *and*
- During the software's development or modification, the College must not have a substantive plan to market the software externally to other organizations.

Software development generally involves three phases, as follows:

- *Preliminary project phase*: Conceptual formulation of alternatives; the evaluation of alternatives; determination of existence of needed technologies; and, final selection of alternatives.
- *Application development stage*: Design of chosen alternative, including software configuration and interfaces; coding; installation of computer hardware and testing, including parallel processing phase.
- *Post-implementation/operation phase*: Training and application maintenance activities.

Costs associated with the preliminary project and post-implementation/operation phases should be expensed as incurred. Costs (internal and external) associated with the application development stage should be capitalized.

Phase	Type of Cost	Accounting Treatment
Preliminary project	All	Expense
Application Development	External direct costs of materials and services (third party fees)	Capitalize
	Costs to obtain software from third parties	Capitalize
	Travel costs incurred by employees in their duties associated with development	Capitalize
	Payroll and payroll-related costs of employees directly assigned to coding, installing or testing	Capitalize
	General and administrative costs, including training	Expense
Post-implementation	All	Expense

For cost capitalization purposes, the application development stage begins when the preliminary phase is complete and the College's management has implicitly or explicitly committed to funding a software project with the intent it will be completed to perform the planned functions. The application and development stage ends when testing is complete and the software is ready for its intended purpose, or is rendered in service.

Institutionally significant software implementations are often more than a year in duration and therefore are maintained in the Financial Edge system on a multi-year reporting basis. These accounts are known as "project accounts" and are recorded in the six-digit range 880000 – 885999.

6. Sales or Disposals of Capital Assets

The book value of land, land improvements, buildings and equipment will be removed from the general ledger when disposed of or sold. See policy on Surplus Property for more information on procedures related to the disposal or sale of College-owned property.

7. Building Demolition

Facilities Management is responsible for reporting buildings to be demolished to the Controller's Office. Based upon this notification, the Controller's Office will identify and retire those buildings from the fixed asset system. The demolition of a building within one year of site acquisition results in an assignment of the building's book value and costs of razing the building to the book value of the acquired land. The accounting treatment for a building demolished at least one year after site acquisition is predicated on management's plans to redevelop the site.

IF	Demolition Costs	Remaining Book Value of Demolished Structure
Building is demolished within 1 year of site acquisition and there are no plans to build on the site…….	Capitalize as part of land addition	Transfer remaining book value to the land addition
Building is demolished at least 1 year after site acquisition and there are documented plans to build a new structure on the site…..	Capitalize as part of new building	Expense
Building is demolished at least 1 year after site acquisition and there are no near-term plans to develop the site…..	Expense	Expense

The Capital Project Managers and Director of Facilities and Maintenance periodically reviews the list of College buildings with the Controller's Office staff to ensure that there are no demolished properties remaining on the general ledger.

8. Basis for Depreciation

Capital assets will be depreciated using the following conventions:

- The straight-line method of depreciation will be used.
- In the year an asset is placed in service, one-half year of depreciation will be calculated.
- Construction-in-progress will be transferred to the appropriate asset category and one-half year of depreciation will be calculated.

Depreciable lives will be assessed as follows:

Capital Asset Category	Depreciation Method	Useful Life
Land	Not depreciated	Unlimited
Land improvements – inexhaustible	Not depreciated	Unlimited
Land improvements – exhaustible	Straight line	25 years
Buildings and fixed equipment	Straight line	50 years
Building improvements	Straight line	25 years
Communications and network equipment	Straight line	5 – 15 years
Equipment and Machinery, including Vehicles	Straight line	5 years
Leased equipment & Leasehold improvements	Straight line	Estimated useful life or lease period, whichever is shorter
Computer software	Straight line	3 years
Construction in progress	Not depreciated	Not applicable

9. Equipment Purchased with Federal Funds

The College uses a capitalization threshold of $5,000 (permitted by Federal grant funding guidelines). Equipment purchased with federal funds must be inventoried once every two years. Such assets are tagged with a bar coded sticker at time of purchase and recorded in I.T.'s Remedy system. Please refer to the grants manual for more information.

10. Exceptions

The Controller must approve any exceptions to this policy by written notice.

Policy Distribution List:

S. Catherine Longley, Sr. Vice President for Finance and Administration & Treasurer
Lisa Roux, Director of Accounting
Sarah Clifford, Manager of Financial Reporting
Marc Berry, Financial Analyst
Ted Stam, Director of Facilities Operations & Maintenance
Mike Veilleux, Associate Director, Major Maintenance Programs
Donald Borkowski, Director of Capital Projects
Gregory Hogan, Senior Capital Projects Manager
Delwin Wilson, Director of Finance and Campus Services
Mitch Davis, Chief Information Officer
Rebecca Sandlin, Deputy Chief Information Officer
Ann Ostwald, Director of Academic Budget and Operations
Richard Lindemann, Director, George J. Mitchell Department of Special Collections & Archives
James Kelley, Procurement and Risk Manager