

Western Michigan University
Capitalization Policy

Revised 10/2010

Western Michigan University 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 University. Capitalized assets include the following:

1. Land – Cost to be capitalized 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.

If existing buildings on the land will be utilized, a portion of the cost should be allocated to land and a portion to buildings. The fair market value of the land should be recorded, and the value assigned to the building will be 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 should be capitalized as land.

2. Land Improvements – Cost to be capitalized includes the cost of landscaping, utility systems, paving of parking lots and outdoor public recreation fields with a cost greater than \$100,000. All land improvement costs associated with newly constructed buildings will be capitalized.

3. Building – new construction. The cost to be capitalized includes but is not limited to the cost of professional services, materials, labor and site preparation.

Infrastructure costs such as steam lines, utility improvements, sidewalks and parking lots are capitalized.

If external debt is used to finance the building, net interest expense and the amortization of loan origination costs incurred during the construction period should be capitalized.

Construction projects are considered construction in progress until they are at least 90% complete or the construction has been certified as substantially complete. The project is then removed from construction in progress and capitalized as buildings or other.

4. Building Renovations – Building improvements should be capitalized 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.

5. Building Demolition – The book value of the building will be written off when a building is demolished. If the land is maintained, the cost of razing the building will be added to the value of the land.

6. Site Work – Capitalize the cost of roads, walks, curbs and related materials in substantially undeveloped parts of campus. If the work is part of a new building construction, the cost should be capitalized.

7. Utilities – Capitalize the cost of utilities if they are being extended to undeveloped parts of campus or new buildings. Alterations to existing utilities to accommodate a new building should also be capitalized.

8. Improvements and Replacements – Capitalize the cost of improvements and replacements if they meet at least one of the following criteria:

- A. The useful life of the asset is extended.
- B. The quantity of services provided by the asset is increased.
- C. The quality of services provided by the asset is enhanced.

An improvement is the substitution of an asset currently in use with a better asset. (An old air conditioning system is replaced by a more powerful and sophisticated air conditioning system).

A replacement is the substitution of an existing asset with a similar asset. (An old air conditioning system is replaced by a new air conditioning system with essentially the same characteristics).

9. Repairs and Maintenance – These costs should be expensed if they do not provide future benefits. Examples include lubrication of machinery, cleaning of buildings and machinery, replacement of minor parts and painting.

10. Purchased Equipment – The cost should be capitalized if all the following criteria are met:

- A. The item cost is at least \$5,000.
- B. The useful life of the item is at least two years.
- C. The item is able to function by itself.

11. Constructed Equipment – For equipment constructed at the University, the acquisition cost includes costs similar to those for purchased equipment as well as costs incurred for materials. Labor and benefits should not be included in the acquisition cost.

12. Leases – Each lease should be reviewed to determine whether it should be expensed or capitalized.

13. Donated Assets – Land, buildings, equipment and library holdings received as a gift will be capitalized at the fair market or appraised value at the time of the gift. Western Michigan University Foundation must be notified of all donated assets received by a department.

14. Software (intangible asset) – Computer software that is 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 \$250,000.

Software that is developed internally should also be capitalized if the cost of development, modification and implementation is greater than \$250,000.

Activities involved in developing and installing internally generated software can be grouped into the following stages:

- Preliminary project stage: Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology and the final selection of alternatives for the development of the software. **These costs are not included as part of the capitalization costs and should be expensed.**
- Application and development stage: Activities in this stage include the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware and testing, including the parallel processing phase. **These costs are included in the capitalization costs of the software.**
- Post implementation/operation stage: Activities in this stage include training and maintenance. **These costs are not capitalized.** Licensing fees/upgrades for subsequent years are typically not capitalized unless new functionality is provided, and the costs are greater than \$250,000.

Donated software that has been modified using more than minimal incremental effort before being put into operation should be recorded at the fair market value as of the date of the gift.

15. Library Holdings – Capitalized library holdings include bound volumes, periodicals, serial titles, microforms, electronic books and electronic subscriptions with perpetual access.

16. Sales or Disposals of Capitalized Assets – The book value of land, land improvements, buildings, equipment, library holdings and intangible assets will be removed from the general ledger when disposed of or sold.