

4.10 Capitalization Guidelines

PURPOSE:

To establish a uniform capitalization policy for equipment and other fixed assets, both tangible and intangible, which meet the capitalization thresholds and criteria in compliance with federal, state, Governmental Accounting Standards Board (“GASB”), and Westmoreland County Community College (Westmoreland) accounting and reporting requirements.

SCOPE:

This policy applies to all Westmoreland departments and education centers. This policy does not address capitalization of leases or subscription-based information technology arrangements. Westmoreland shall follow the respective GASB pronouncements.

DEFINITIONS:

Buildings: includes buildings purchased or constructed having a total cost of \$5,000 or greater. The cost of construction projects is initially capitalized to construction work in progress and, when subsequently placed in service, the costs are transferred to the appropriate fixed asset account and depreciation commences.

Building/Leasehold Improvements: the substitution of a better asset for the one currently used (example – install carpeting where none existed or substitute a concrete floor for a wood floor), or any change which increases the asset’s future service potential and extends its useful life (example - replacing a building’s roof). Improvements with a value of \$5,000 or greater are capitalized.

Computer Software: includes computer software acquired for internal use. Generally, only institutionally significant systems with a cost of \$5,000 or greater are capitalized. Also includes major modifications (such as an upgrade) to the software.

Other Intangible Assets: an intangible asset is an asset that 1) lacks physical substance, 2) is nonfinancial in nature and 3) has an initial useful life of one year or more. This includes right-of-way and other types of easements, water rights, timber rights, patents, copyrights, trademarks, licenses and permits with a cost of \$5,000 or more. This also includes gifts of software with rights to use.

Donated Assets: assets received in a voluntary non-reciprocal transfer from another entity such as gifts of capital assets. Depending on the type of asset donated, fair market value or like cost appraisal method will be utilized for the capitalization amount.

Fabricated Equipment: includes self-constructed equipment where the total unit cost of labor and materials incurred to fabricate the equipment is \$25,000 or more. Components, which can contain commercially off-the-shelf goods and non-commercially off-the-shelf parts, include enhancement parts that materially and permanently increase the value or useful life of equipment. A system with multiple components which cannot operate independently of each other and together cost \$25,000 or more will also be capitalized. The rule-of-thumb is that for a component to be included in the original acquisition cost of a piece of equipment, it should be an attached or installed option which, as assembled, is expected to operate as one unit for the remainder of its life.

Equipment/Moveable Equipment: an article of non-expendable, tangible personal property that is affixed or free standing, is complete in itself, does not lose its identity when affixed to or installed in other property and has a useful life greater than one year. Includes, but not limited to, delivery equipment, HVAC systems, servers, office equipment, machinery, furniture and fixtures, factory equipment, instruments and vehicles. Has a purchase value of \$25,000.

Exceptions to the equipment definition are:

- Assets purchased as repair parts for existing parts in previously tagged equipment.
- Materials used in repair or replacement in previously tagged equipment
- Household equipment (drapes, bedding, carpet replacement).
- Built-in equipment – such items become part of the building or structure after installation and may be capitalized as building/leasehold improvements. For example – built-in cabinets, garbage disposals, furnaces, and air conditioners. Please see the definition of Building/Leasehold Improvements.

POLICY:

This accounting policy of Westmoreland defines the types of assets and the minimum cost (capitalization amount) that shall be used to determine the capital assets to be recorded in the accounting records and financial statements of Westmoreland. Tangible or intangible assets that meet the purchase or fair market value criteria as noted in the definitions portion of this policy will be capitalized and depreciated or amortized over the set useful life of the asset or

otherwise expensed via impairment. The cost of items not meeting the thresholds or other criteria established herein will be expensed in the period incurred for financial statement purposes.