Effective Date: 11/13/19

Doane University Capitalization Policy

Amended 07/01/17
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Doane University requires that amounts expended for fixed assets in excess of certain thresholds and whether purchased, constructed, gifted or leased, be capitalized, depreciated and periodically reviewed for impairment or possible write-off in accordance with GAAP and federal and state laws.

A fixed asset is capitalized only if it meets **ALL** of the following conditions, otherwise the expenditure is recorded as an operating expense in the fiscal year incurred:

- Owned or considered owned by Doane University
- Held for operations (not resale)
- Has a useful life that exceeds one year
- Meets the following capitalization threshold:

Category	Capitalization Threshold
Land	N/A - all land is capitalized
Buildings & Building Improvements (including Construction in progress).	$10,000 - aggregate project cost
Land Improvements	$10,000 - aggregate project cost
Infrastructure	$10,000 - aggregate project cost
Capital Assets/Moveable Equipment	$2,500 - individually or operating unit

Definitions of fixed asset classes:

- **Land:** All expenditures related to the initial purchase of land (no dollar limit) including any due diligence costs such as commissions, legal fees, and escrow fees. Per GAAP, land is not a depreciable asset.
- **Buildings:** All expenditures related to the initial purchase or initial construction of a building in excess of $10,000. The cost of buildings would include the acquisition cost plus any costs to prepare the building for occupancy. These costs would include contract amount, attorney and architect fees, commissions, escrow fees, governmental impact fees and permits, insurance and any other costs to prepare the building for occupancy. Interest costs during construction are also included. Donated labor or services are not capitalized. Buildings are depreciated over 50 years using the straight-line depreciation method.
- **Building Improvements:** Renovations, additions or repairs to physical structures in excess of $10,000 in aggregate that enhance or improve **AND** extend the life of the original asset. General repairs and maintenance are not capitalized such as cleaning, painting, carpet, etc. Building improvements are depreciated over 20 years using the straight-line depreciation method.
- **Land Improvements:** Betterments other than buildings in excess of $10,000 in aggregate that bring land up to the condition needed for its intended use. Land improvements are depreciated over 20 years using the straight-line depreciation method.
- **Capital Assets/Moveable Equipment:** Capitalized if unit value is $2,500 or more – 3-10 year life. Unit value may be reached by pooling together of multiple like kind units of the same item, e.g.

50 units of desk chairs purchased for $75 each would be capitalized at a pooled value of $3,750. Capital assets is a moveable or fixed unit of furniture or furnishings, instrument, machine, computer, or computer apparatus or set of articles which generally meets all of the following conditions:

- It retains its original shape and appearance with use.
- It is nonexpendable; that is if the article is damaged or some of its parts are lost or worn out, it is usually more feasible to repair it than to replace it with an entirely new unit.
- It does not lose its identity through incorporation into a different or more complex unit or substance.

- **Infrastructure:** Long-lived capital assets in excess of $10,000 in aggregate which are part of a network of assets than normally can be preserved for a significantly greater number of years than most capital assets, and which normally are stationary in nature. Improvements to infrastructure in excess of $10,000 should also be capitalized and depreciated using the straight-line depreciation method. See schedule below for infrastructure useful lives:

Description	Useful Life
Campus Lighting System	20
Steam Distribution System	50
Power Distribution System	30
Electrical Distribution System	30
Water Distribution System	30
Drainage System	30
Irrigation System	20
Sanitary Sewer System	30
Streets/Roads	50
Sidewalks	20
Computer Network/Wiring	20
Phone Network	20
Central Controls & Energy System	20
Tunnels	50

See the decision chart on the following page for additional assistance in determining the appropriate classification for expenditures:

	Capitalize				Expense
Description	Building & Improve > $10,000	Land Improv. > $10,000	Infrastructure > $10,000	Capital Assets > $2,500	Expense
Accounting fees	X	X			
Alterations - changes in the internal structural arrangement or other physical characteristics of an existing asset so that it may be effectively used for a newly designated purpose (i.e. adding a new wing of offices, changing office space to classroom space, etc.)	X			X	
Application fees (permits)	X	X	X		
Appraisals	X	X			
Architectural services	X	X	X		
Asbestos removal	X				
Athletic field (new or replacement)		X			
Bleachers (new or replacement)		X			
Bridges (new or replacement)			X		
Broker's fees or other commissions	X	X			
Built-in furnishings	X				
Clearing, grading & filling of purchased site for purpose of constructing building		X			
Closing costs (not real estate taxes or interest)	X	X			
Construction supervision fees	X	X	X		
Culverts (new or replacement)			X		
Curbs (new or replacement)			X		
Dedication expense					X
Demolition/removal of old buildings or structures		X			
Design costs	X		X		
Drainage ditches/systems			X		
Easement and right-of-way access		X			
Electrical distribution system			X		
Engineering services	X	X	X		
Environmental clean-up costs at time of acquisition		X			
Environmental clean-up costs of existing asset					X
Extended warranty					X
Feasibility studies for asset purchase	X	X			

Fences (new or replacement)		X			
Fiber optic cabling systems			X		
Finder's fees	X	X			
Fire hydrants (new or replacement)			X		
Fixed equipment & furnishings	X				
Fountains (new or replacement)		X			
Freight, shipping and handling fees		X		X	
Gas distribution system			X		
Golf course (new or replacement)		X			
HVAC	X				
Inspection costs	X	X	X		
Installation fees (cost to install equip.				X	
Insurance costs NOT during construction					X
Insurance costs during construction	X	X	X		
Interest costs NOT during construction					X
Interest costs during construction	X		X		
Internal labor costs	X	X	X		
Irrigation systems			X		
Land development fees		X			
Landscaping (new or replacement)		X			
Legal and consulting fees	X	X	X		
Litigation costs					X
Maintenance and repairs					X
Maintenance agreements					X
Moving & relocation (moving people & equipment in or out of a building)					X
Other professional services related directly to the purchase	X	X			
Parking lots & barriers		X			
Real estate taxes					X
Recording fees (title/ownership registration)	X	X	X		
Redecorating (repainting, wallpaper, carpet)					X
Renovations - total or partial upgrading of a facility to a higher standard of quality or efficiency	X	X	X		
Rent					X
Replacements, renewals or betterments (i.e. replace an entire roof, replace electrical, plumbing or A/C systems)	X		X		
Retaining walls (new or replacement)		X			

Sanitary sewer systems			X		
Septic systems (new or replacement)		X			
Sidewalks (new or replacement)			X		
Soil and land assessments		X			
Street/road/alley			X		
Street lighting systems			X		
Street signage			X		
Storm sewer systems			X		
Surveys	X	X	X		
Swimming pool (new or replacement)		X			
Telecommunications equipment				X	
Telephone & power lines		X			
Temporary structures necessary for construction	X	X	X		
Tennis courts (new or replacement)		X			
Title insurance	X	X			
Title searches	X	X			
Traffic lights/signals			X		
Tunnels (new or replacement)			X		
Utility fees during construction	X				
Utility fees NOT during construction					X
Utility installation		X			
Walking paths (new or replacement)		X			
Water distribution system			X		

Construction in Progress

Construction typically pertains to real property (i.e. land improvements, buildings, and infrastructure) and involves the payment of many invoices over a long period of time. When completed, the total cost of a construction project should be capitalized and then allocated over multiple years through depreciation expense. Examples of expenditures to be capitalized include:

- Completed project costs
- Interest accrued during construction
- Cost of excavation or grading or filling of land for a specific building
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of building permits
- Professional fees (architect, engineer, management fees for design and supervision, legal)
- Costs of temporary buildings used during construction
- Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
- Additions to buildings (expansions, extensions or enlargements)

The following accounting issues arise:

Capitalizable:

Expenditures of incomplete construction projects must be capitalized but not depreciated until the project is complete. These expenditures become "Construction in Progress (CIP)". CIP is an asset account that reports the total capitalized expenditures of construction projects that are incomplete at fiscal year-end.

Determination of When to Remove Projects from Construction in Progress (CIP) and Begin Depreciation:

The project should be removed from CIP, moved to the appropriate asset classification, and begin depreciation at the earliest occurrence of:

- Substantial completion of the project
- Occupancy, or
- When the asset is placed in service.

A project is determined to be substantially completed when an asset is complete or nearly complete and available to be placed in service.

Expenditures of construction projects should be identified and capitalized periodically throughout the fiscal year but at least once at the end of each fiscal year. Expenditures of substantially completed projects should be removed from CIP to completed assets in the month of completion and immediately begin to depreciate.

Recording Additional Expenditures after Capitalization:

Once a project has been capitalized and depreciation has started (i.e. no longer construction in progress), any additional capitalizable expenditures should be added to the asset's capitalized value **IF** the additional expenditures exceed the capitalization threshold for Fixed Assets. For example, if a $50,000 capitalizable invoice is paid two years after the capitalization of a $500,000 building with a 40-year life, the $50,000 would be added to the $500,000 capitalized value. The additional $50,000 will be depreciated over the remaining life of 38 years.

Once a project is capitalized and depreciation has started, no additional expenditures related to that project will ever be "construction in progress".

Works of Art and Historical Treasures

Works of art are collections or individual items of significance that are owned by an institution, which are not held for financial gain, but rather for public exhibition, education or research in furtherance of public service. Historical treasures are collections or individual items that are protected and cared for or preserved and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

All works of art and historical treasures acquired or donated will be capitalized, unless held for financial gain. If a collection is held for financial gain and not capitalized, disclosures must be made in the notes of the financial statements to provide a description of the collection and the reasons those assets are not capitalized.

Examples of expenditures to be capitalized as works of art and historical treasures include:

- Collections of rare books and manuscripts (see special library collection information above)
- Maps, documents and recordings (see special library collection information above)
- Works of art such as paintings, sculptures, and designs
- Artifacts, memorabilia, and exhibits
- Unique or significant structures

Works of art and historical treasures are not to be depreciated.

Depreciation

Depreciation is the process of allocating the cost of fixed assets over a period of time, rather than deducting the cost as an expense in the year of acquisition. Doane University will use the straight-line methodology for depreciating all fixed assets with zero salvage value. The current policy of Doane University regarding useful lives will be followed. Information pertaining to specific assets may be found in earlier fixed asset sections of this policy.

Doane University uses the proportional 365 days depreciation method on all depreciable assets.

Depreciation expense for capital assets that can specifically be identified with a function should be included in its direct expenses. Depreciation expense for "shared" capital assets (for example a facility that houses buildings & grounds, the finance office, and classroom space) should be ratably included in the direct expenses of the appropriate functions. Depreciation expense for capital assets that essentially serve all functions is not required to be included in the direct expenses of the various functions.

If there is depreciation that is not allocated, then there should be a separate line item called "Unallocated Depreciation" (does not include direct depreciation expense). All depreciation expense that can be identified should be direct expensed to the appropriate function.

See table on next page to determine the appropriate useful lives for different classes of assets to be depreciated. This list is not exhaustive.

Type of Asset	Depreciation Period
Land	
Land	Not Depreciated
Land Improvement	20 Years
Building	
Building Shell	50 Years
Building Addition	50 Years
Building Replacement	50 Years
Building Systems/Interior	20 Years
Major Building Renovation	30 Years
Capitalized Lease	Useful life of asset (or term of the lease, whichever is shorter)
Leasehold Improvement	20 Years (or term of the lease, whichever is shorter)
Office Related Equipment	
Office Equipment	5 Years
Furniture & Fixtures	7 Years
Computer Related Equipment	
Personal computers & their peripheral equipment	5 Years
Software Licenses	3 Years
Mainframe Processors & Servers & Network Systems & Electronic Systems	5 Years
Departmental Equipment	
Departmental Equipment	7 Years
Scientific Equipment	7 Years
Musical Equipment	7 Years
Heavy Equipment & Machinery	10 Years
Vehicles	
Cars & Light General Purpose Trucks	5 Years
Light Off Road Vehicles	5 Years
Heavy Off Road Vehicles	5 Years
Heavy General Purpose Trucks	5 Years
Boats	5 Years
Other Assets	
Art & Antiques	Not Depreciated
Rare Books & Collections	Not Depreciated

Intangible Assets

Intangible assets should be classified as capital assets. To be recorded as an intangible asset in the Doane University accounting records, the intangible asset must have the following characteristics:

- Owned by the University
  - Expenditures for items not owned by the University are expensed.
- Lacks physical substance
  - Assets with physical substance are recorded as tangible assets.
  - Capital leases lack physical substance but are accounted for as part of tangible assets.
- Non-financial in nature
  - Assets in monetary form are recorded as cash or investments
- Used primarily for operations and not used to directly obtain income or profit
  - Royalty agreements are not reported as intangible assets because they exist primarily to generate royalty income. Patents or copyrights underlying a royalty agreement are used primarily for operations and are therefore considered intangible assets.
  - Assets obtained for resale are not used in operations and are therefore not recorded as intangible assets
- Separately identifiable
  - An intangible component (right) of a tangible asset (i.e. rights associated with land ownership) is accounted for as part of the tangible asset.
  - Capable of being separated or divided from Doane University and sold, transferred, licensed, rented, or exchanged either individually or together with a related contract, asset, or liability.
- Supported by a formal agreement
  - An intangible asset is generally supported by a formal agreement that either allows Doane University to sell, rent or otherwise transfer the right to another party, or the agreement gives Doane University certain contractual or other legal rights to tangible assets owned by other parties.

Common types of intangible assets:
- Computer software
- Purchased or licensed
- Internally generated
- Websites
- Easements
- Land use rights (e.g. water, timber, and mineral rights) *<u>Note: land use rights associated with property already owned should not be reported as intangible assets separate from the property.</u>*
- Patents, copyrights, and trademarks

Internally generated intangible assets:

An intangible asset is considered “internally generated” if it is:

- Created or produced by Doane University or an entity contracted by Doane University, or

- Acquired from a third party but requires more than minimal incremental effort on the part of Doane University to put the intangible asset in service.

Expenditures in creating the internally generated intangible asset are either expensed or capitalized, depending on the stage in the asset's development. In initial development, all expenditures are expensed (not capitalized). Initial development ends upon the occurrence of ALL of the following:

- Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project.
- Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity.
- Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

Only outlays incurred subsequent to meeting the above criteria should be capitalized. Outlays incurred prior to meeting all three criteria should be expensed as incurred.

Specific application to computer software:

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

- <u>Preliminary Project Stage</u>*:* 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.
- <u>Application Development Stage</u>*:* Activities in this stage include the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, testing, and data conversion needed to make the software operational.
- <u>Post-Implementation/Operation Stage</u>*:* Activities in this stage include application training, data conversion that is beyond what is strictly necessary to make the software operational, and software maintenance.

All outlays associated with activities in the preliminary project stage should be expensed as incurred.

All outlays related to activities in the application development stage should be capitalized, provided the following conditions are met: 1) the outlays were incurred subsequent to the completion of the preliminary project stage and 2) management authorizes and commits to funding (either implicitly or explicitly), at least through the current period. (Note: when these two conditions are satisfied, the criteria for internally generated intangible assets are considered to be met). For commercially available software that will be modified to the point that it is considered internally generated, these two conditions generally are met at the time a campus makes the commitment to purchase or license the computer software. Capitalization of such outlays should cease once the software is substantially complete and operational (i.e. ready for use).

All outlays associated with activities in the post-implementation/operation stage should be expensed as incurred.

The activities within the three stages of development may occur in a different sequence. The recognition guidance for outlays associated with internally generated computer software should be applied based on the nature of the activity, not the timing of its occurrence. For example, outlays associated with application training activities that occur during the application development stage should be expensed as incurred.

An improvement to existing computer software must do at least one of the following to qualify for capitalization:

- Increase the software's functionality,
- Increase the software's efficiency, or
- Extend the software's estimated useful life

If the modification does not result in any of the above outcomes, the modification should be considered maintenance, and the associated outlays should be expensed as incurred. If a maintenance contract covers all required maintenance and any unspecified upgrades issued during the year by the vendor, the unspecified upgrades should be considered maintenance.

For commercially available software acquired through a licensing agreement requiring multi-year payments, a long-term liability representing the agency's obligation to make payments under the contract should be reported. If no interest rate is stated in the licensing agreement, the long-term liability does not have to be discounted. The provisions of FASB Statement 13, *Accounting for Leases*, do not apply to licensing agreements.

Amortization:

An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset (e.g. permanent right-of-way easement). Intangible assets with indefinite useful lives should not be amortized.

Intangible assets with limited useful lives (e.g. by legal or contractual provisions) should be amortized over their estimated useful lives. Amortization of computer software should begin when the program is placed into service. Renewal periods related to such provisions may be considered when determining the useful life of the intangible asset if the campus expects to exercise the renewal option and any anticipated outlays to be incurred as part of achieving the renewal are nominal (in relation to the level of service capacity obtained through the renewal).

MISCELLANEOUS

University management determines if there has been a triggering event that would cause impairment to any Fixed Assets under their supervision. The following are examples of events that may require an adjustment as an impairment or disposal of Fixed Assets:

- A significant decrease in the market price of a long-lived asset
- A significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition

- A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator
- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset
- A current-period operating or cash flow loss combined with a history of operating cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset
- A current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

If impairment is determined to exist, the Assistant Controller in the Business Office should be contacted in order to reflect the impairment on the University's books (in consultation with the Controller, as necessary).

Disposition of Fixed Assets:

Departments are asked to contact the Assistant Controller before disposing of University assets. The Assistant Controller will verify the method of disposal, valuation of the asset, and expectations on the use of the proceeds, if any. In addition, dispositions of fixed assets may require additional handling procedures to meet the University's legal and environmental responsibilities.

If equipment was purchased with federal funds through a grant, there are most likely restrictions on selling that equipment. The department must check with the associated grant manager before disposing of a federally-funded asset.

Assets are typically disposed of in the following ways:

- **Sold** – direct sale or auction by the department (or Facilities Management). A minimum sales price must be established to avoid reporting a loss on disposal of Fixed Assets or to recognize a gain on disposal of assets in high demand. The department is responsible for ensuring sales occur at arm's length, particularly when dealing with parties related to the University. This includes ensuring fair and competitive bidding when appropriate.
- **Traded-in** – Similar procedures to those listed under 'Sold' above, are followed for trade-ins of University property. The inclusion of the Assistant Controller is particularly important due to the complexity of the accounting involved in trade-ins of similar and dissimilar properties. Full details are required for all value received and given during this transaction, including allowances (if any).
- **Donated** – Equipment may be donated to other organizations. A fair value must be determined for donated equipment. Other procedures are similar to sales and trade-ins.
- **Discarded** – Assets are typically discarded by scrapping or dumping, where the asset has little or no resale value. Before discarding an asset, the department should ensure no other options are viable.
- **Other** – Damaged or stolen University assets are also reported. Upon discovery of a theft or destruction, the department must notify the Doane Safety Office. This category of disposals may also include other, less frequent situations, which require a department to dispose of an asset.
- **Disposal of hazardous substances** - Surplus/disposal of hazardous substances (i.e. chemical) should be done only with prior approval from Facilities. Disposal of asbestos and lead paint from construction/renovation projects should be done by a licensed contractor.

- **Computers** - All University computers and computer related items must be disposed of by IT. Even if a computer is to be transferred to another individual within the same department, the machine must first be "wiped clean" by IT prior to the transfer.

The University is required to record a liability for any asset retirement obligations existing at the end of each fiscal year. Asset retirement obligations include those obligations for which the University has a legal requirement (regulatory, contractual, etc.) to perform an asset retirement activity (sale, abandonment, recycling or disposal in some other manner). Examples include, but are not limited to, abatement of asbestos and lead paint, removal of underground storage tanks, and removal of leasehold improvements. All asset retirement obligations should be communicated to the Controller to ensure proper financial reporting.

Movement of Assets – Moveable Equipment:

In the event an asset is to be moved from one location to another or from one department to another, the Assistant Controller must be notified. Under no circumstances should any University owned property be moved without prior consent.

Once the Assistant Controller has been notified of the move, the Fixed Asset Database will be updated with the change. Notification of the move will ensure that inventory listings provided to the Departments are accurate.