RHODE ISLAND COLLEGE **OFFICIAL POLICY**	***Capitalization***	**EFFECTIVE DATE:** *2012-11-21* **REVISION HISTORY:** *established 2001/07/01; amended 2003/06/16, 2006/12/04, and 2011/02/18*
RESPONSIBLE OFFICE: *Office of AVP for Finance and Controller*	**POLICY OWNER:** *AVP for Finance and Controller*	**LINK TO HOME PAGE OF RESPONSIBLE OFFICE**

PART 1. RATIONALE

Higher education governing board policy F - 28.0, Capital Asset Accounting Policy, establishes minimum guidelines of accounting for all capital assets owned by the board and held in the custody of the state's three public institutions of higher learning. The Rhode Island College policy on Capitalization sets forth the policy, procedures, and guidelines necessary to comply with this board policy.

PART 2. SCOPE

Applies to all capital asset accounting at Rhode Island College.

PART 3. DEFINITIONS

addition	An increase or extension of an existing asset. Additions include entirely new units and extension, expansion, and enlargements of old units
alteration	A change in the internal arrangement or other physical characteristics of an existing asset so that it may be effectively used for its newly designated purpose. *Example: changing classroom space into offices*
asset	Something of value owned by an entity or, more formally, probable future economic benefits obtained or controlled by a particular entity as a result of past transactions
boat	A small vessel propelled by oars, paddles, sail, or power
building	A roofed and walled structure acquired or constructed for permanent use
capital asset	Includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, work of arts and historical treasurers, infrastructures and other tangible and intangible assets that are used in operations and that have initial lives of more than one year or extending beyond a single reporting period (GASB Statement No. 34)
capitalize	To record an expenditure or contribution that may benefit a future period as an asset rather than to treat the expenditure as an expense for the period in which it occurs
capital expenditure	An expenditure that results in additions or improvements of a permanent nature, material in amount, adds value and increase the life of the capital asset, and increases and enhances the quantity and quality of goods and services produced from the asset

component	A definable subdivision of a building that is sometimes separately identified for record-keeping purposes. *Examples: plumbing, electrical system, shell, roofing, interior furnishings, and HVAC (heating, ventilating, and air conditioning)*
construction in progress	Cost of construction work undertaken but not yet completed as of the close of the accounting period
depreciation	A system that aims to distribute the cost of tangible capital assets over the estimated useful life of the unit (which may be a group of assets) in a systemic and rational manner
donated asset	An asset received in a voluntary non-reciprocal transfer by another entity
equipment	An article of an expendable and tangible personal property. This would include:
▪ **computer hardware**	A device that can perform one or more of the following functions: data preparation; input to the computer; computation, control and primary storage; secondary storage; and output to the computer
▪ **construction equipment**	Tangible property and implement used to assemble/improve land, buildings and/or infrastructure assets
▪ **education and recreational equipment**	Furniture, implements and tangible property used for educating/teaching in a classroom; and/or implements used for rest and relaxation or social activities
▪ **farm equipment**	Tangible property and implements used for agricultural purposes
▪ **household furnishings and equipment**	Furniture, property and accessories used in and around living quarters
▪ **medical, surgical and lab equipment**	Tangible property and implements used for medical treatment and/or experimental testing and analysis
▪ **motor vehicles and automotive service equipment**	1) *Motor vehicles* -- mechanized equipment used to transport people and other items. 2) *Automotive Service Equipment* -- implements and tangible property used to test, diagnose, and repair motor vehicles
▪ **office furnishing and equipment**	Furniture, implements, and tangible property used in rooms within a building for the conduct of trade, business, professional, or government services
expenditure	A payment or an incurring of an obligation to make a future payment for a benefit received
expense	An amount that reflects the depletion of an asset in connection with the production of revenue or the execution of other activities that are part of the entity's operation (NACUBO). *Example: depreciation*
infrastructure asset	Long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. These include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, lighting systems, telecommunications systems, gutters, curbs, streets, sidewalks, gas and electric utilities, solid waste disposal, waste water treatment, and similar assets that are immovable. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets (GASB Statement No. 34)
land	A portion of the earth's surface distinguishable by boundaries or ownership

lease	a contractual agreement between a lessor and a lessee that coveys to the lessee the right to use specific property (real or personal), owned by the lessor, for a specific period of time in return for stipulated, and generally periodic, cash payments (rent)
leasehold improvement	Any improvement made to property leased by the college
mass purchase	Purchase made of multiples of the same items of equipment or supplies at the same time
preservation/restoration costs	Expenditures associated with maintaining special assets in, or returning them to, a level of quality as close to the original as possible. *Example: restoring a painting or antique to its former beauty or acting to prevent any further deterioration*
renovation (sometimes known as improvement and betterment)	The total or partial upgrading of a facility to higher standards of quality or efficiency than originally existed. It also includes the substitution of an improved asset for an existing one. *Examples: the transition of an old research laboratory into one with state-of-the art equipment, lighting, or other subsystems; a wooden floor replaced with a concrete floor*
repair	An expenditure that maintains an asset in condition for operation. There are two classes of repair:
▪ **ordinary repair**	An expenditure made to maintain a plant asset in operating condition
▪ **extraordinary repair**	An expenditure made to extend the life of an asset's originally estimated life by more than one year
software	Programs and routines provided to facilitate the use of a computer. Includes application programs or routines written for a specific installation, but more commonly refers only to general programming and operating aids, which are usually furnished by the manufacturer

PART 4. STATEMENT OF POLICY

A. Capitalization Policy Objectives:

1. to ensure uniform understanding of the college's capitalization policy for fixed assets;

2. to standardize the accounting for capital expenditures;

3. to provide resource providers and others with qualitative and quantitative financial information on the deployment and use of the college's resources, specifically in fixed assets;

4. to ensure compliance with Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements-and Management's Analysis-for State and Local Governments, and GASB Statement No. 35, Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities, with respect to the reporting of capital assets; and

5. to assist in safeguarding capital assets by assigning accountability for them

B. Major Fund Types and Account Groups

The college's general purpose financial statements contain three major fund types and two account groups, as follows:

1. Fund Types

    a. Governmental Funds

        i. General fund – used to account for all financial resources except those to be accounted for in other funds

        ii. Special revenue funds – used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes

        iii. Capital project funds – used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds)

        iv. Debt service funds – used for the accumulation of resources for, and the payment of general long-term debt principal and interest

    b. Proprietary Funds

        i. Enterprise Funds – used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes

    c. Fiduciary Funds

        i. Trust and agency funds – used to account for assets held by a governmental unit in a trustee capacity or that have an agent for individuals, private organizations, other governmental units, and/or other funds

2. Account Groups

    a. General Fixed Assets Account Group: used to account for the fixed assets of a governmental unit. In essence, this group is an accountability listing of a government's general fixed assets that are not employed in commercial type activities or held in trust

    b. General Long-Term Debt Account Group: used to account for the outstanding general long-term liabilities of a governmental unit

C. Business-Type Activities Model

The college, in cooperation with other components of the state's system of public higher education, has adopted the Business-Type Activities (BTA) model in order to facilitate comparability of financial reporting. Under the BTA model, the college's basic financial statements consist of the following:

1. Management Discussion and Analysis (MD&A)

2. Financial Statements:

    a. Statement of Net Assets or Balance Sheet

    b. Statement of Revenues, Expenses, and Changes in Net Assets

    c. Statement of Cash Flows, Direct Method

3. Notes to Financial Statements

4. Required Supplementary Information other than MD&A

The statement of net assets and the statement of revenues, expenses, and changes in net assets are prepared using the economic resources measurement focus and the accrual basis of accounting. The net assets include funds invested in capital assets, net of related debt. This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by related debts such as bonds, mortgages, notes, and other borrowings that are attributable to the acquisitions, construction, addition, or improvement to existing capital assets.

GASB 34 and 35 require the prospective reporting of all major infrastructure assets in the statement of net asset or balance sheet. As a Phase 1 governmental institution, the college is also required to report, retroactively, all major infrastructure assets. In addition, prospective reporting of general infrastructure assets is required in the statement of net assets. With the exception of land, books, and construction in progress, all capital assets of the college are depreciated in accordance with the existing depreciation policy, and the depreciation expense is reported in the statement of revenues, expenses, and changes in net assets.

PART 5. PROCEDURES

A. Capitalization Procedures

1. LAND: All expenditures incurred to acquire land and to place it ready for use should be capitalized. The acquisition costs of land should include: (1) the purchase price; (2) closing costs; (3) cost incurred in preparing the land in condition ready for its intended use; (4) assumption of any liens or mortgages on the property; and (5) improvements made to the land that have indefinite lives and are permanent in nature. Since land is acquired on a parcel basis, it should be recorded in the system on that basis. However, land parcels representing components of a site are aggregated and ultimately recorded in the system as one parcel.

2. LAND IMPROVEMENTS: Improvements to land with limited lives, such as fences, driveways, parking lots, and walks should be recorded as land improvements, so that they can be depreciated over their estimated useful lives. The capitalized costs of land improvements should be $50,000 or more, which includes the net invoice price and any additional costs incurred to bring the asset to a condition ready for its intended use. Land improvement should be recorded in the system as a separate asset from land (e*xample: parking lot).*

3. BUILDINGS: If a building is acquired by purchase, the capitalized cost should include the purchase price and other incidental expenses incurred at the time of acquisition. If a building is constructed instead of purchased, the capitalized cost should include material, labor, supervision, and overhead, or the contract price, including certain added costs.

    a. Examples of added costs:

i. building permit and licenses;

ii. architectural, engineering, and attorney’s fees;

iii. insurance premium, applicable to the construction period, including premium on insurance on claims for damages and accidents;

iv. title examination costs; and

v. costs of temporary building used for construction office or as tool and material shed

b. Interest incurred during the construction period on bonds or other obligations assumed or issued to obtain funds for the construction should be capitalized as additional cost of a building (SFAS No. 34).

c. Each building should be recorded in the system as a separate asset and depreciated accordingly.

4. INFRASTRUCTURE: The cost of infrastructure assets should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition or construction, e.g. contract price, freight and transportation charges, site preparation, professional fees (GASB Statement No. 34). Each infrastructure asset should be recorded as a separate asset in the system and depreciated accordingly.

5. COSTS INCURRED AFTER ACQUISITION OR CONSTRUCTION OF BUILDING: The following capitalization policy should apply with respect to expenditures incurred subsequent to acquisition or construction of buildings.

a. Addition: All expenditures incurred for an addition consisting of an entirely new unit should be capitalized and charged to a specific building account. The new unit should be depreciated over its estimated life.

If an addition represents an extension, expansion, or enlargement of an old unit, all expenditures incurred in such addition to place the enlarged building in condition for its intended use, should be capitalized and charged to a specific building improvement account. The policy is to regard all costs, including the costs of deletion, less salvage from demolished or reconstructed portions of the old structure, as costs of the building improvement. Additions made to buildings should be recorded in the system if the total cost is $50,000 or more and have useful life of more than one year.

b. Alteration and Renovation: The costs of alteration and renovation should be capitalized if the following criteria are met:

i. the expenditures increase the service potential of the building

ii. total improvement costs, including costs such as the contract price, engineering, architectural, and attorney’s fees, are $50,000 or more

iii. the improvement has a useful life of more than one year

Costs of alteration and renovation should be recorded in the system and charged to the building improvement account and should not be added to the capitalized value of the existing structure being impacted. Such costs would include the following:

iv. ramps, truck doors, fire escapes, and other appurtenances

v. improvements requiring modifications of the structure to comply with current fire, health, and safety codes

vi. improvements undertaken to convert unusable floor space into usable floor space; or upgrade the use of floor space, (e.g., converting storage areas to office/classroom space

vii. modernization of the structure as a whole, and not merely a rearrangement of selective office/classroom areas

When the renovation project involves a significant razing of the existing structure, the cost, including the accumulated depreciation of the portion that was razed, shall be removed from the system. If the original cost is not available, a reasonable estimate of the original cost should be used.

c. Repairs: Extraordinary repairs incurred on equipment costing $5,000 or more, and which extends the life of the equipment, should be added to the cost of that piece of equipment. Expenditures on ordinary repairs should be expensed in the period in which they are incurred on the basis that it is the only period benefited.

6. EQUIPMENT: Expenditures for equipment and furnishings costing $5,000 or more on a unit basis and have estimated life of more than one year should be capitalized. Items in this category should be capitalized at net invoice price (or market value, if acquired by gift) plus freight and installation charges.

7. FABRICATED EQUIPMENT: Self-constructed equipment should be capitalized if the total unit costs incurred to fabricate the equipment is $5,000 or more, and the asset has estimated useful life of more than one year. Self-constructed equipment should be recorded at cost, which includes materials, direct labor, and applicable overhead incurred to fabricate the equipment.

8. DONATED ASSETS:: The College sometimes receives gifts of fixed assets. Property acquired by gift should be capitalized at its fair market value at the time of gift. A conditional gift of fixed assets should be recorded as "Contingent Asset" until the stipulated conditions are met.

9. WORKS OF ART AND HISTORICAL TREASURES**:**

10. LIBRARY BOOKS

11. LEASEDHOLD IMPROVEMENT**:** Leasehold improvements made to buildings leased by the College should be capitalized if they meet established criteria: a cost of $50,000 or more and a useful life of more than one year. The capitalized costs should be charge to the Leasehold Improvements account.

12. MASS PURCHASES: If several fixed assets are acquired in one purchase at a lump price, the acquisition costs should be apportioned and capitalized to the various assets if they meet the

basic capitalization criteria. If an integrated system is purchased as a single asset, it should also be capitalized if it meets the basic capitalization criteria. The apportionment should be made on the basis of their appraisal values at the time of purchase (i.e., utilizing the ratio of the appraised values of each class of assets to the total appraised value). The allocated acquisition cost should be expressed in a unit cost basis, specifically for equipment and furnishing.

13. CAPITAL LEASED PROPERTIES: Leased tangible property should be capitalized if the non-cancelable lease agreement covering the property meets one or more of the following four criteria at the inception date of the lease agreement (FASB Statement No. 13):

a. the lease transfers ownership of the property to the lessee at the end of the lease term

b. the lease contains a bargain purchase option. A bargain purchase option is defined as a provision allowing the lessee to purchase the property for a price that is substantially lower than the expected fair value of the property at the date the option becomes exercisable

c. the lease term is 75% or more of the estimated economic life of the lease property

d. the percent value of the minimum lease payment at the beginning of the lease term, excluding executory costs, equals or exceeds 90% of the fair value of the leased property

The capitalization thresholds for leased equipment and buildings with more than one-year useful life are $10,000 and $50,000, respectively

If the lease agreement does not meet any of the above criteria, it is considered an operating lease for accounting purposes. The period payments, under the terms of the agreement, shall be recorded as rental expenses in the College's accounting systems.

14. COMPUTER SOFTWARE FOR INTERNAL USE: This software has the following characteristics that distinguish it from software developed to be sold:

a. the software is acquired, internally developed, or modified solely to meet the College's internal needs

b. during the software's development or modification, no plan exists to market the software externally

Research and development (R&D) costs associated with the development of computer software for internal use should be expensed (AcSEC/SOP). R&D costs include:

c. purchased or leased computer software used in R&D activities where the software does not have an alternative future use

d. all internally developed internal use computer software if 1) the software is a pilot project or 2) the software is used in a particular R&D project, regardless of whether the software has alternative future use

e. conceptual formulation, design, and testing of possible computer software project alternative

The costs of computer software for internal use should include (AcSEC/SPO) the following:

f. acquisition costs including materials and services consumed in developing or obtaining internal use computer software

g. payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal use software project, including its implementation

h. interest costs recognized on borrowing and other obligations (SFAS No. 34)

Once the software has been placed into service, any upgrade or enhancement costs should be capitalized if such upgrade or enhancement extends the life or increases the utility or functionality of the software.

B. Depreciation Procedures

1. The college has elected to report depreciation expense in its financial statements, as opposed to using the “modifies approach”, which does not require infrastructure assets that are part of a network or subsystem of a network to be depreciated if certain requirements are met. Depreciation expense will be measured by allocating the net cost of depreciable assets (cost less estimated salvage value) over their estimated useful lives in a systematic and rational manner. GASB Statement Nos. 34 and 35 provide an opportunity to public colleges and universities to conform with each other, and with profit-making entities, on the accounting treatment of depreciation. For sponsored research, these statements may also provide the opportunity for better documentation of depreciation charges, which could lead to increases in negotiated recovery rates on sponsored grants and contracts.

2. Depreciation Convention

   Depreciation will be calculated in the college’s Fixed Asset System, utilizing the “half-year” convention. Under this convention, one half year’s depreciation will be calculated in the fiscal year an asset is acquired. This convention shall be used regardless of when, during the fiscal year, as asset is acquired.

3. Depreciation Method

   The “straight line’ method of depreciation will be utilized to depreciate capital assets except land, construction in progress, and work of arts, over the estimated useful lives. Under this method, depreciation is computed by establishing the basis of an asset, less the salvage value, then dividing by the number of years of useful life to arrive at an annual depreciation charge. Leasehold improvements, however, should be depreciated over the remaining life of the lease, or the useful life on the improvement, whichever is shorter. The following criteria are used to determine the annual depreciation amount:

   a. cost or basis

   b. salvage value

   c. useful life

   d. depreciation method

4. Asset Lives:

The following schedule adopted from the State of Rhode Island's fixed asset system shall be used as a guide in determining the useful life of the various categories of capital assets:

Asset Category	Subcategory	Life (Years)
Boats (all types)		10
Building additions		30
Building improvements and renovations		15-30
Buildings- research	Roof	N/A (not available)
	Plumbing system	N/A
	Electrical system	N/A
	Shell	N/A
	HVAC	N/A
Buildings – non-research		30
Computer equipment		5
Computer equipment (mainframe)		7
Furniture and equipment		7
Land improvements (e.g., fences, parking lots, driveways, walls)		15
Leasehold improvements		5
Motor vehicles		7
Software		7
Infrastructure (e.g., roads, bridges, tunnels, drainage systems, water and sewage systems, lighting systems)		30
Communication system (e.g., station, branch exchange, cable, conduit, manholes, microwaves)		15

5. Salvage Value

Consistent with State of Rhode Island fixed asset policy, the salvage value convention for the following categories of assets is established at 10% of the original cost or market value:

a. boats

b. buildings

c. equipment

d. motor vehicles

e. renovation/improvements

C. Disposition of Depreciable Plant Assets

When fixed assets that are subject to depreciation are sold or otherwise disposed of, the property account should be relieved of the cost of the asset. The depreciation account in the Fixed Asset System should also be relieved of the accumulated depreciation at the time of disposal.

The gains or losses from sale or disposal should be recorded as "other income" or "operating loss" of the specific fund (general, special, proprietary, or capital project). However, in cases where the gains and losses are so large that their inclusion as other income or operating loss would impair the significance of the statement of revenues, expenditures, and other changes in fund balance, such gains and losses should be reported as "other financing source or use".

PART 6. GUIDELINES

None

PART 7. RESPONSIBILITIES

Responsible Official	List of Responsibilities
AVPF	Supervision of financial reporting

PART 8. CONTACTS

Subject	Office or Position	Telephone Number	E-Mail
Policy Clarification	Assistant Vice President for Finance and Controller	(401) 456-8221	pforte@ric.edu

PART 9. POLICY ENFORCEMENT

Violation(s)	Deviation from prescribed policy and procedures
Potential consequences	Negative impact on college's financial statements; potential personnel action for the individual responsible for the violation
Where to report violations	Assistant Vice President for Finance and Controller

PART 10. FORMS/TEMPLATES/REFERENCE DOCUMENTS

N/A