BEREA COLLEGE **Capitalization and Depreciation Policy**	Document No.	FIN003
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1.0 Purpose

Capital assets at Berea College include land, land improvements, buildings, equipment and library holdings used in the operations of the College and having a useful life of greater than one year and an acquisition cost equal to or greater than the amount established per category in this document.

2.0 Definitions

3.0 Policy

To establish a financial accounting capitalization policy for land, land improvements, buildings, equipment and library holdings.

1. **Useful Life**
   The College has determined useful life guidelines as follows:

   A. New construction - 40 years

   B. Major renovations - 15 to 30 years

   C. Purchased equipment – 2 to 10 years

   D. Library holdings - 10 years

2. **Land**
   Cost to be capitalized includes all costs connected with acquisition and costs 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 purchased land will be utilized, a portion of the cost should be allocated to land and a portion to the 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.

3. **Land Improvements**
   Costs to be capitalized, if the total cost exceeds $50,000, include landscaping, utility systems, paving of parking lots and outdoor recreation fields. All land improvement costs associated with newly constructed buildings will be capitalized.

4. **Buildings-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 incurred during the construction period will be capitalized as part of the total project cost. Loan origination costs will be capitalized separately and the expense recognized over the life of the debt. Construction projects are considered construction in progress until they are substantially complete and functional for the intended purpose. The project is then removed from construction in progress and capitalized as buildings or other.

5. **Building Renovations**
   Building improvements should be capitalized if they are significant alterations or structural changes that (1) cost more than $50,000 and (2) meet one of the following conditions:

   A. Extends the useful life of the building beyond what was originally scheduled.

   B. Expands the total square footage of the building.

   The cost of any work required on the existing building such as removing walls, upgrading wiring, and materials to make the building fully functional upon completion of the renovation should also be capitalized as part of the renovation cost.

6. **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.

7. **Site Work**
   The cost of roads, walks, curbs and related materials in substantially undeveloped parts of campus will be capitalized if in excess of $50,000. If the work is part of a new building construction, the cost will be capitalized.

8. **Utilities**
   The cost of utilities will be capitalized if they are being extended to undeveloped parts of campus or new buildings. Alterations to existing utilities to accommodate a new building will also be capitalized.

9. **Improvements and Replacements**
   The cost of improvements and replacements will be capitalized 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.)

10. **Building Repairs and Maintenance**
    These costs will be expensed if they do not provide future benefits. Examples include lubrication of machinery, cleaning of buildings and machinery, replacement of parts and painting.

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

    A. The cost of the item is $5,000 or more.

    B. The useful life of the item is greater than one year.

    C. The item is able to function by itself.

    Acquisition cost is defined as the net price of the equipment including the cost of modifications, attachments, accessories, or auxiliary apparatus necessary to make the equipment operable. Other charges such as the cost of installation, transportation, taxes, duties and protective in-transit insurance will be included in determining the acquisition cost.

12. **Constructed Equipment**
    For equipment constructed at the College, 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.

13. **Personal Computers**

All personal computer (PC) system packages valued at $5,000 or more are to be recorded on the equipment inventory. PC system packages consist of a central processing unit (CPU), system software, and all accessories necessary to make the property operable. The value of the computer monitors purchased with PC systems should be capitalized as part of the PC system. Monitors purchased as replacements or upgrades to existing systems are to be accounted for in the manner outlined below under "Equipment Repairs, Replacements, and Upgrades."

14. **Software**

Software is intangible property and is not considered capital equipment under this policy. The value of pre-loaded computer software may be included in the cost of the equipment recorded on the College's inventory when the cost of this software is not separately identified on the sales invoice. Major systems software that is unique to higher education and necessary for continuing operations may be capitalized. Please refer questions regarding capitalization of major systems software to the Finance Office.

15. **Accessory Equipment**

The cost of an accessory purchased separately-after the equipment has been received and made operable should not be added to the value of an item of capital equipment listed on the inventory. When an accessory meets all the criteria of capital equipment (i.e., it is tangible personal property having a useful life greater than one year and an acquisition cost of $5,000 or more), it should be treated as a separate item of capital equipment and recorded on the College's equipment inventory.

16. **Equipment Repairs, Replacements, and Upgrades**

Equipment repair costs will be expensed. Replacement and upgrade costs will be capitalized only when these costs are $5,000 or more and they extend the useful life of the original piece of equipment by greater than one year.

17. **Donated Equipment**

Equipment donated to the College by a third party is covered by this policy. For capitalization and inventory purposes, the recorded value of the donated equipment should be the fair market value of the equipment at the date of the gift. Generally, the fair market value of such an item of property is the price at which the item or a comparable item would be sold at retail, taking into consideration the age and condition of the property on the date of the gift. All College departments are responsible for reporting donated equipment to College Relations as soon as is practical. College Relations reports all donated equipment to the Finance Office on a monthly basis.

18. **Library Holdings**

Capitalized library holdings include bound volumes, periodicals, serial titles and microforms.

19. Trade Discounts

Assets purchased with trade discounts received for the trade of other College property or equipment will be recorded at Fair Market Value. The traded equipment will be disposed of according to the Disposal of Assets Policy.

20. Sales or Disposals of Capitalized Assets

The book value of land, land improvements, buildings, and equipment will be removed from the general ledger when disposed of or sold. For additional details, please see the Disposal of Assets Policy at https://www.berea.edu/vpf/policies-and-procedures/.

21. Leases

Each lease will be reviewed by the Finance Office to determine whether it should be expensed or capitalized.

22. Depreciation

Capital assets will be depreciated using the straight-line method over the useful life of the asset. Generally, depreciation will begin when the asset is placed into service for its intended function. Six months of depreciation will be recorded for newly acquired library holding in the fiscal year of purchase regardless of the timing of the individual purchases.. In cases of building renovations, the original cost and accumulated depreciation will remain on the books and the cost will continue to be depreciated over the remaining life of the asset. The cost of the renovation will be capitalized and depreciated based on the useful lives noted above.

23. Tracking and Monitoring

The Finance Office is responsible for tagging identified fixed assets and the subsequent tracking and monitoring of tagged assets. Periodically, physical inspections of a sample of tagged assets will be completed to verify existence, location and condition of equipment and to ensure the accuracy of the College's accounting records. Department personnel are responsible for working with the Finance Office to identify and provide adequate time to tag and inspect equipment as requested.