– a capital project a) extends the life of a physical facility by more than five years, b) incurs total costs that exceed $50,000, and/or c) materially increases the market value of an existing facility. Examples include projects to construct new buildings, enlarge or structurally renovate buildings, or install major equipment/fixtures that become permanent additions to facilities.

Purchases greater than $5,000 are capitalized; however, moveable equipment (e.g. furniture) may be capitalized as part of a newly constructed building or a building improvement regardless of individual dollar amounts. To ensure appropriate capitalization:

1. Equipment is initially recorded in the Financial Edge as an expense to the department making the purchase. On a monthly basis, Controller's Office staff reviews all invoices greater than or equal to $5,000 and produces a list of invoices to analyze for capital equipment purchases.
2. As a general rule, individual invoices making up a purchase must exceed $5,000 to be included for capitalization. However, if it is clear from the detail review that a single piece of equipment costing more than $5,000 was billed from several invoices, then it is capitalized. Alternatively, if an invoice in excess of $5,000 is actually an accumulation of a number of pieces of equipment valued individually at less than $5,000, then it is *not* capitalized.
3. The capitalization entry is made in the plant ledger, thus not affecting the individual department's budget, but allowing appropriate capitalization for financial statement purposes.
4. The capitalized cost includes all expenditures incurred to purchase the equipment and prepare it for its intended use. This includes one-time charges for freight and handling, insurance on the equipment while in transit, cost of special foundations if required, assembling and installation costs, and blueprint and development costs.

The College generally does not enter into capital lease agreements except in special circumstances. In the event the College enters into a capital lease, the asset should be capitalized at the net present value of the lease payments and recorded in the fixed asset system in the same manner as other purchased assets and corresponding liabilities are recorded. Payments related to operating leases should be expensed.

Leased equipment should be capitalized if the lease arrangements meet any one of the requirements of Statement of Financial Accounting Standards No. 13, as follows:

The lease transfers ownership of the property to the lessee by the end of the lease term

The lease contains a bargain purchase option

The lease term is equal to 75 percent or more of the estimated economic life of the leased property

The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90 percent of the fair value of the leased property.

The cost of capital improvements made to College-leased property may be capitalized and depreciated over the life of the lease (or useful life of improvements if shorter).

The College does not capitalize these items. In general, individual books and reference materials fall below the College's threshold for capitalization.

The College does not capitalize its artwork or collections. In accordance with SFAS 116, proceeds from the sale of artwork and collection items are used to acquire other artwork or collection items. Please refer to the College's Museum of Art and Arctic Museum Deaccession policies for more information.

The College capitalizes the costs of computer software developed or obtained for internal use for institutionally significant systems only. Accordingly, computer software developed or obtained for internal use with a cost in excess of $50,000 should be capitalized.

For software to be considered developed or obtained for internal use, both of the following tests must be met:

The software must be acquired, internally developed, or modified solely to meet the College's needs; *and*

During the software's development or modification, the College must not have a substantive plan to market the software externally to other organizations.

Software development generally involves three phases, as follows:

Preliminary project phase: Conceptual formulation of alternatives; the evaluation of alternatives; determination of existence of needed technologies; and, final selection of alternatives.

Application development stage: Design of chosen alternative, including software configuration and interfaces; coding; installation of computer hardware and testing, including parallel processing phase.

Post-implementation/operation phase: Training and application maintenance activities.

Costs associated with the preliminary project and post-implementation/operation phases should be expensed as incurred. Costs (internal and external) associated with the application development stage should be capitalized.

Preliminary project	All	Expense
Application Development	External direct costs of materials and services (third party fees)	Capitalize
	Costs to obtain software from third parties	Capitalize
	Travel costs incurred by employees in their duties associated with development	Capitalize
	Payroll and payroll-related costs of employees directly assigned to coding, installing or testing	Capitalize

For cost capitalization purposes, the application development stage begins

Depreciable lives will be assessed as follows:

Land	Not depreciated	Unlimited
Land improvements – inexhaustible	Not depreciated	Unlimited
Land improvements – exhaustible	Straight line	25 years
Buildings and fixed equipment	Straight line	50 years
Building improvements	Straight line	25 years
Communications and network equipment	Straight line	5 – 15 years

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