Lehigh University – Controller's Office
Capitalization Policy

Lehigh University has a significant investment in plant assets, representing long-term commitments to fulfill its mission. The University owns and controls all land, buildings and equipment purchased with University funds, unless stipulated otherwise by the funding source. The Offices of Risk Management and Facilities Planning are responsible for overseeing the ownership and control of land and buildings. Property Management administers capital equipment matters and is responsible for the centralized accounting and reporting of University plant assets. Custody and use of all property is the responsibility of the various colleges and departments. The Banner Class Codes and useful lives are detailed in I:\Documentation\Prop Mgmt\Banner Class Codes.xls.

**Plant Assets** – Capitalized plant assets include land, land improvements, buildings, building improvements, fixed equipment, moveable equipment, fabricated equipment, furniture/equipment purchased in "lots", art/museum collection, library collection, software, and capital leases. The University may acquire property through gifts, purchases or construction. Capitalization of property will occur only if the minimum dollar parameters for capitalization are met and the property has a useful life of more than one year.

1. **Land** – Costs to be capitalized as **Land** include all costs connected with the acquisition of land. Land costs typically include the purchase price; closing costs, such as title fees, attorney's fees, and recording fees; any costs incurred in getting the land in the condition for its intended use, such as grading, filling, draining, and clearing; the assumption of any liens, mortgages, or encumbrances on the property; and any additional land improvements that have an indefinite life.

   If land is purchased with a building on it, and that building has never been used by the University, the cost of demolition less its salvage value is a cost of getting the land ready for its intended use and relates to the land rather than to the new building.

2. **Land Improvements** – Costs to be capitalized as **Land Improvements** include the cost of landscaping – creating and planting new landscaping beds, shrubs and trees; infrastructures; utility systems; paving roads and parking lots; sidewalks; outdoor recreational fields; and outdoor fixed picnic tables. Project costs of at least $25,000 are capitalized as land improvements. Items such as top dressing athletic fields, replanting existing beds, benches and garbage containers not fixed (purchased in lots) should be expensed.

3. **Buildings** – Costs to be capitalized as **Buildings** include all costs related to the acquisition or construction of the building. Project costs of at least $25,000 (excluding moveable equipment, including fixed equipment) are capitalized as buildings. Acquisition costs include but are not limited to the cost of purchase, appraisals,

professional services, and title insurance. Construction costs include, but are not limited to, the cost of professional services, test borings, materials, architect and engineering fees, and site preparation.

If a building on a parcel of land has been used for a period of time and the use of that particular parcel is redesigned, then the cost of demolition less its salvage value is a cost that relates to the construction of the new building.

4. **Building Improvements** – Costs to be capitalized as **Building Improvements** include all project costs of $25,000 or more that increase or amend the usefulness, enhance efficiency, or prolong the useful life of a particular building for a period greater than two years. Building Improvements can include:

**a) Replacements and Improvements** – An improvement is the total substitution of a better asset for the one currently in use (say, a concrete floor for a wooden floor). A replacement is the total substitution of a unit with a new unit that serves the same purpose and has approximately the same expected useful life as the unit being replaced (a wooden floor for a wooden floor or an old roof for a new roof).

If the expenditure increases the future service potential of the asset and the project cost is at least $25,000, the expenditure should be capitalized regardless of whether it is a replacement or an improvement. If the carrying amount of the old asset can be determined, the cost of the old asset should be removed from the Fixed Assets System and replaced with the cost of the new asset.

If the carrying amount of the old asset cannot be determined, capitalize the new asset. Sufficient depreciation has been taken on the item to reduce the carrying amount to almost zero. Although this assumption may not be true in every case, the differences are not often significant.

**b) Renovations costs** are expenditures intended to benefit future periods. An example is renovating a lab or classroom to facilitate future research or instruction. Project costs totaling $25,000 or more should be capitalized as an asset to be amortized over those future periods.

Examples of Renovations are: a) adding square footage to an existing building, b) changing the layout of an existing lab by knocking down walls or adding walls and installing new lab benches and floor covering, etc., c) installing a completely new heating, cooling, or plumbing system, or d) extending wiring or plumbing to an area previously without such.

**c) Repairs and Maintenance –** If the maintenance work involves significant alterations or structural changes that cost at least $25,000 and increase or amend the usefulness, enhance the efficiency, or prolong the useful life of a building for a period greater than two years, the expenditures should be capitalized.

In general, repairs and maintenance do not replace an asset in its entirety – more likely it is a partial replacement (such as repairing a portion of a roof).

Ordinary repairs and maintenance are expenditures made to maintain or restore plant assets in operating condition. These expenditures are charged to an expense account in the period in which they are incurred on the basis that **it is the primary period that is benefited.** Repainting and replacing carpet are not capitalized; however such costs associated with new construction and renovation projects are capitalized.

Building costs are not reduced for materials, carpeting, etc., removed during building repairs, replacements or renovations unless a specific asset in the Fixed Asset System can be identified to be removed.

5. **Fixed Equipment –** Fixed equipment is equipment that is attached or permanently fastened to a building and cannot be removed without costly or extensive alterations to the building or area in which it is affixed. Examples of fixed equipment include walk-in refrigerators/freezers, fixed shelving, and lab benches. Costs include expenditures for the equipment, freight, taxes, and installation. Project costs (including fixed equipment) of at least $25,000 are capitalized as building.

   Fixed Equipment costs are not reduced for materials, etc., removed during fixed equipment repairs, replacements or renovations unless a specific asset in the Fixed Asset System can be identified to be removed.

*6.* **Moveable Equipment –** Moveable equipment refers to equipment which can be easily moved from one building/area to another. Costs of at least $5,000/unit are capitalized. These costs include expenditures for the moveable equipment, freight, taxes, training and installation. *Component parts that are integral to the equipment's operation are included in the cost of the equipment (i.e., a monitor and operating system are essential to the operation of a computer and would be included in the cost of the computer).*

   Extended warranties, maintenance contracts and intangible assets should be expensed. All capitalized equipment is tagged for physical inventory purposes. The Property Management Office conducts a bi-annual physical inventory.

   **Repairs and Maintenance –** If the repair or maintenance work involves significant alterations that cost at least $5,000 and increase or amend the usefulness, enhance the efficiency, or prolong the useful life of the equipment for a period greater than two years, the expenditures should be capitalized.

   In general, repairs and maintenance do not replace an asset in its entirety – more likely it is a partial replacement or upgrade.

Ordinary repairs and maintenance are expenditures made to maintain or restore equipment in operating condition. These expenditures are charged to an expense account in the period in which they are incurred on the basis that **it is the primary period that is benefited.**

Equipment costs are not reduced for materials, etc., removed during equipment repairs, unless a specific asset in the Fixed Asset System can be identified to be removed. Equipment repairs and upgrades that are charged to Maintenance Indexes (Predecessor = DESMAI) should not be capitalized in order to avoid duplication of depreciation recovery.

7. **Fabricated equipment** refers to equipment that has been constructed on campus. Costs include all direct costs associated with fabrication and installation of the item, plus allocated indirect costs, including payroll charges, supplies and installation. Total costs per unit of $5,000 or more are capitalized.

8. **Furniture/equipment purchased in "lots"** – Group furniture/equipment purchases of items costing less than $5,000/unit and totaling at least $25,000 are capitalized when a new building is constructed or as part of a major (entire building) renovation project or as additions to the University's telephone and networking system. Otherwise expenditures of less than $5,000/unit are expensed.

   Items such as mattress purchases and refurbishing computer sites are expensed since they are annual recurrences.

9. **Art/museum collection** additions are recorded at cost, if purchased, including transportation and any other incidental costs. If artwork is donated, items are recorded at the fair market value as of the date of gift. Art/museum acquisitions and disposals are reported to Property Management by the Art Galleries. One asset is recorded in the Fixed Assets System for the current year acquisitions, net of disposals.

10. **Library collection** additions are recorded at cost, including transportation and any other incidental costs. Library acquisitions and disposals are reported to Asset Accounting by the University Libraries. Acquisition expenditures are recorded in index #213100, account codes #75010 thru 75070. One asset is recorded in the Fixed Assets System for the current year acquisitions, net of disposals.

11. **Software** expenditures totaling $50,000 or more are capitalized. Installation costs are included with the cost of the software. Costs include all direct costs associated with the purchase and implementation of the software, plus allocated indirect costs, including payroll charges and supplies.

12. **Capital Leases** – If the fair market value of a leased asset exceeds the minimum dollar threshold for capitalization, as defined above, and the lease terms meet one or more of the following criteria, it is classified as a purchase by the University and capitalized: (a)

lease term is greater than 75% of the property's estimated economic life; or (b) the lease contains an option to purchase the property for less than fair market value; or (c) ownership of the property is transferred to the lessee at the end of the lease term; or (d) the present value of the lease payments exceeds 90% of the fair market value of the property. The asset is capitalized at the present value as of the contract date.

The property is recorded as an asset on Lehigh's books and a corresponding capital lease liability is established at the time of lease inception. The lease liability is recorded in Investment in Plant along with the asset. See Capital Lease Procedures for additional information.

Lease payments are allocated between interest expense and amortization of the lease liability. The asset is depreciated over its estimated useful life. When the lease terminates, if the University does not retain title, the asset is recorded as a disposal.