CAPITALIZATION POLICY
April 16, 2015

The capitalization policy of Dartmouth College determines the proper classification of costs for new construction, renovations, improvements, maintenance projects, and equipment. This policy has been developed to assist project managers and others with the important task of distinguishing between capital and non-capital costs. Costs that are capitalized are depreciated over their useful lives. Costs that are not capitalized are recorded as an expense in the year incurred.

Capital Costs:
Costs of $50,000 or more incurred for a single project/purchase which are considered to be one of the following: (1) construction costs, fabrication, or a purchase that creates one new asset; (2) an improvement, renovation/replacement that either extends the life or adds value or functionality to an existing asset; (3) costs that correct functional inadequacies, change the use of an existing asset, or are necessary to put an asset into service, or (4) application/development stage costs for software/website development.

Definitions:
Single project/purchase – expenditures or purchases related to one asset
Fabrication – using purchased material and College labor to assemble or manufacture equipment
Improvement – additions to existing systems, space, or components
Renovation/replacement – removal of existing systems, components, or space and the construction of new systems, components, or space in its place.
Application/development stage costs – purchase or design, configuration, software interface, coding, testing, develop/purchase data conversion software, or upgrades that result in additional functionality.

Examples of Capital Costs:
Construction of a new building or an addition to an existing building that increases the square footage.
Installation of new fixed equipment or building systems such as lockers or a security system.
Land/site improvements such as new parking lots, paving a gravel parking lot, sidewalks, wells, septic systems, tunnels, or initial landscaping.
Replacement of a building system such as mechanical, plumbing, and electrical systems or a roof.
Renovation of the entire interior, an entire floor, classrooms, or offices in an existing building.
Replace technologically outdated equipment or building systems.
Moveable equipment such as servers, microscopes, and crew boats.
Website development to provide information, solicit contributions, etc.
Non-Capital/Maintenance Costs (expendable):
(1) Capital projects and moveable equipment purchases of less than $25,000; (2) Costs which neither materially add to the value of an existing asset nor appreciably prolong its economic useful life, but keep it in ordinary, efficient operating condition. These costs are considered normal, recurring, periodic, and necessary to maintain the asset’s economic useful life for the use(s) for which it was acquired or constructed; (3) Preliminary stage costs for software development and construction projects; (4) Post-implementation stage costs for software development.

Definitions:
Economic useful life – depreciable life, an estimate of how long the asset will last.
Preliminary stage costs – determination of needs and formulation and evaluation of alternatives.
Post-implementation stage costs - data conversion, employee training/travel, annual licenses and fees.

Examples of Non-Capital Costs:
Exterior and interior painting of buildings, not part of new construction or a major renovation project.
Recurring planned major maintenance activities such as overhauls or refurbishments.
Re-planting of trees, shrubs, and bushes.
Repairs and cleaning of masonry or roofs.
Evaluating various software solutions to identified software needs.
Travel, meals, conferences fees for College employees.
Moveable equipment such as laptops, printers, and a/v equipment.

Construction in Progress:
Construction in progress (CIP) refers to all construction, renovation, improvement, fabrication, and customization projects where capital costs are greater than or equal to $50,000 or non-recurring extraordinary repairs and maintenance (such as flood damage repairs) funded by long-term maintenance reserves. Please complete the CIP Account Setup Form to request CIP funding and activity values and review the Org 003 Natural Class Definitions document for guidance regarding recording CIP transactions in the appropriate capital and non-capital natural classes.

All capital projects must be componentized when they are put into use. Please complete the Componentization Template and refer to the Componentization Guide for a list of the various components and a reasonable method for allocating total project costs to these components.

Fabricated Equipment:
Please refer to the Fabricated Equipment Policy for information regarding both capital and non-capital fabricated equipment.
Capital Equipment:
Capital equipment refers to single pieces of moveable equipment and equipment systems costing $25,000 or more. Multiple pieces of equipment that individually cost less than $25,000 but work together in order to be operational are considered a system. An example of a system: A computer linked to A/V equipment. Since the computer access the functionality of the A/V equipment, the A/V equipment cannot be used without it. An example of multiple pieces working together that are not a system: Storage devices added to a server to add additional storage space. The server can operate without the additional devices.

Moveable Equipment:
Although moveable equipment costing $5,000 to $24,999 is not capitalized, it is included in the moveable equipment inventory (Fixed Asset System) along with capital moveable equipment for F&A cost proposal purposes. Please see the Moveable Equipment Inventory Policy for further information.

Disposals:
The Controller’s Office must be notified of all disposals of capital equipment through transfer, sale, or retirement in order to properly account for sales proceeds, gain/loss on sale, and removing the asset and corresponding accumulated depreciation from the College’s fixed assets. Procurement should be contacted as well to coordinate the disposal with the department and to ensure that the equipment is removed from the Fixed Asset System. Additionally, the Controller’s Office must be notified of all partial and complete building demolitions.

Capital Leases:
The Controller’s Office must be notified of all leases entered into in order to classify the lease as either capital or operating, as each type of lease is accounted for differently. The College owns the equipment acquired under capital leases and therefore an asset must be recorded as well as the corresponding lease payable. Periodic payments under a capital lease are recorded by departments as lease principal and interest expense (natural classes 8642 and 8612, respectively). The College does not own equipment under operating leases; therefore periodic payments are recorded by departments as rental expense (natural classes 7211 to 7237).

If you have any questions regarding this policy or need assistance in completing forms or determining the proper classification of specific project costs please contact the Financial Analyst – Capital Asset Management at 646-XXXX