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Title: Capitalization Appendix A
Responsible Unit: Institutional Accounting, Reporting & Analysis (IARA)
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Appendix A

West Virginia University Capitalization Policy

Definitions

1. BUILDINGS

Definition
Includes buildings purchased or constructed. Construction projects are initially capitalized to construction in progress. Subsequently, the capitalized expenditures are recorded as an asset.

Capitalized Costs
If a building is acquired by purchase, the capitalized cost should include purchase price and other incidental expenses incurred at the time of acquisition. If a building is constructed, the capitalized cost should include all reasonable and necessary costs incurred to construct the building and prepare it for its intended use. Such costs could include -

Appraisal & Negotiation fees
Surveying & Architect fees
Legal and title fees
Transportation charges
Building permits
Demolition cost
Damage payments
Land-preparation costs
Insurance during construction
Accounting fees
Closing cost
Facilities Management Services billable rates (including salaries and wages, fringe benefits, and annual operating costs)

2. BUILDING IMPROVEMENTS

Definition
The substitution of a better asset for the one currently used (example **-** install carpeting where none existed or substitute a concrete floor for a wood floor), or any change to the building which increases its future service potential and extends its useful life (example - substitute a new wooden floor for an old deteriorated wooden floor).

Capitalized Costs
Costs of improvements include expenditures incurred to increase the service potential of the building including the contract price, engineering, architectural, and attorney's fees. These costs can include the rates charged by Facilities Management Services (which include salaries and wages, fringe benefits, and annual operating costs).

3. INTERNALLY GENERATED COMPUTER SOFTWARE

Definition
Includes computer software that is developed in-house or by a third-party contractor on behalf of WVU or software that is purchased or licensed by WVU and modified using more than incremental effort before being put into operation per the requirements of GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets". Generally, only institutionally significant systems with a cost of $100,000 or greater are capitalized. Also includes major modifications (such as an upgrade) to the software.

Capitalized Costs

Costs related to internally generated software, including installation expenses, that are $100,000 or greater, should be capitalized. Fees paid for training and software maintenance should not be capitalized and should be expensed. External costs of upgrades and enhancements that enable the software to perform tasks that the software was not previously capable of performing may be capitalized.

Bulk purchases of software should not be capitalized if the unit cost is less than $100,000. Perpetual software licenses are not capitalized and should be expensed.

The cost of internally generated software includes internal and external costs associated with the application development stage of the software. Allowable costs to be capitalized include the acquisition cost of the software including licensing agreement, cost of contract services associated with the project (such as consulting fees), cost of capital items purchased solely for the project, travel costs, and payroll and payroll-related costs of employees directly assigned to the project. Please see **Appendix B** for details.

4. OTHER INTANGIBLE ASSETS

Definition
An intangible asset is an asset that 1) lacks physical substance, 2) is nonfinancial in nature and 3) has an initial useful life of one year or more. This includes right-of-way and other types of easements, water rights, timber rights, patents, copyrights, trademarks, licenses and permits with a cost of $25,000 or more. This also includes gifts of software with rights to use. This does not include assets acquired primarily for the purpose of directly obtaining income or profit.

The useful life of an intangible asset should not exceed the period to which the service capacity of the asset is limited by contractual or legal provisions. An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset. Intangible assets with indefinite useful lives should not be amortized.

Capitalized Costs
Costs related to the purchase or license of the asset and/or costs related to internally generated assets (those created or produced by the institution or an entity contracted by the institution).

5. DONATED ASSETS

Definition
Assets received in a voluntary non-reciprocal transfer from another entity such as gifts of capital assets.

Capitalized Costs
Donated assets are recorded at their fair market value or appraised value at the time of gift in accordance with the applicable capitalization threshold.

6. EQUIPMENT

Definition
An article of non-expendable, tangible personal property that is free standing, movable, is complete in itself, does not lose its identity when affixed to or installed in other property and has a useful life greater than one year. Includes delivery equipment, office equipment, laboratory equipment, machinery, furniture and fixtures, factory equipment, instruments and

vehicles. Also includes the following –

a) **Fabricated Equipment**
Fabricated equipment includes self-constructed equipment that is assembled/constructed with individual components into a single functional unit with an expected useful life greater than one year and a combined cost of $5,000 or more. The components can be purchased from multiple vendors as individual items but they must function as a singular unit after all components are assembled. Components include enhancement parts that materially and permanently increase the value or useful life of equipment. For a component to be included in the original acquisition cost of a piece of equipment, it should be an attached or installed option which, as assembled, is expected to operate as one unit for the remainder of its useful life. Interchangeable items that will not be physically attached for the life of the asset and are intended to be interchanged, will be considered an accessory option to the asset and not capitalized unless the accessory has a cost of $5,000 or greater.

b) **Exceptions to Equipment**
Exceptions to the equipment definition are –
- Assets purchased as repair parts for existing parts in previously tagged equipment.
- Materials used in repair or replacement in previously tagged equipment.
- Household equipment (drapes, bedding, carpet replacement).
- Built-in equipment – such items become part of the building or structure after installation and may be capitalized as building improvements. For example – built-in cabinets, garbage disposals, furnaces, and air conditioners. Please see the definition of Building Improvements.
- Livestock – is neither tagged nor capitalized.

Capitalized Costs
The cost of equipment includes all expenditures incurred for the equipment and preparing it for its intended use. This includes the invoice purchase price, one-time charges for freight and handling, taxes on purchase (if purchase was not exempt), duty, insurance on the equipment while in transit, cost of special foundations if required, assembling and installation costs, and blueprint and development costs if applicable.

7. FEDERALLY OWNED ASSETS

Definition
Includes assets purchased with federally sponsored award funds. These federally funded assets are tagged, recorded and tracked in WVU’s Fixed Assets System but are not reported

on the Financial Statements of the University. The title to such assets generally remains with the federal sponsor. However, in some situations the federal sponsor may transfer the title of the asset to WVU.

Capitalized Costs
Federally funded assets are recorded in the Fixed Assets System at their acquisition cost, as provided by the government, plus any transportation and installation costs. When the title to such assets is transferred to the University, the asset's ownership is changed to WVU in the Fixed Assets System and the appropriate net book value is recognized. If the asset's cost is less than $5,000, the record is removed from the Fixed Assets System.

8. OTHER PARTY OWNED ASSETS

Definition
Includes assets purchased with sponsored award funds (other than federal funds) or assets furnished by the sponsor (non-federal). These sponsor funded or sponsor furnished assets are tagged, recorded and tracked in WVU's Fixed Assets System but are not reported on the Financial Statements of the University. The title to such assets generally remains with the sponsor. However, in some situations the sponsor may transfer the title of the asset to WVU.

Capitalized Costs
Such assets are recorded in the Fixed Assets System at their acquisition cost, as provided by the sponsor, plus any transportation and installation costs. When the title to such assets is transferred to the University, the asset's ownership is changed to WVU in the Fixed Assets System and the appropriate book value is recognized. If the asset's cost is less than $5,000, the record is removed from the Fixed Assets System.

9. FEDERALLY FURNISHED ASSETS

Definition
Includes assets directly acquired by and in the possession of the government and subsequently furnished by the government to the University as part of a sponsored award. These federally furnished assets are tagged, recorded and tracked in WVU's Fixed Assets System but are not reported on the Financial Statements of the University. The title to such assets remains with the federal sponsor and the assets are returned to the government at the end of the contract or sponsored award through which it is provided.

Capitalized Costs
Federally furnished assets are recorded in the Fixed Assets System regardless of their cost.

10. INFRASTRUCTURE

Definition

Long-lived capital assets that are part of a network of assets that can have service potential for an extended period and that are normally stationary. Example of infrastructure networks – roads, sidewalks, electrical, sewer and water systems, fiber optic cabling system, transit systems, bridges, dams, tunnels, and telecommunications network systems.

Telecommunications network systems consist of the power conduit, cabling/wiring, electronics, and the telephone switching equipment and components necessary for the campus-wide delivery of electronically transmitted communications, principally voice (telephones) and data (computers), where such equipment and components are purchased and installed in the building for a long term basis. Telecommunications Network System Infrastructure is separately capitalized if it is NOT capitalized as a sub-component of either: 1) a new building construction project; or 2) a building improvement/renovation project; or 3) a utility improvement/renovation project; or 4) is expensed to operations and maintenance of plant as a sub-component of a building or utility improvements/renovation project when total cost falls below the $25,000 improvements capitalization threshold.

Capitalized Costs

All expenditures incurred to acquire or construct infrastructure assets are capitalized. These expenditures can include the rates charged by Facilities Management Services (which include salaries and wages, fringe benefits, and annual operating costs).

11. LAND

Definition

Land purchased by WVU or acquired by gift or bequest.

Capitalized Costs

All expenditures incurred to acquire land and to prepare it for its intended use. These costs include purchase price, closing costs, and assumption of any liens, mortgages, or encumbrances on the land. Land acquired by gift should be recorded at its fair market value.

12. LAND IMPROVEMENTS

Definition

Any improvements with a limited life made to ready land for its intended use that is not part of an infrastructure network. Examples of land improvements - parking lots, landscaping, benches, fountains, bleachers, retaining walls, septic systems.

Capitalized Costs
These include costs incurred in preparing land for its intended use (grading, filling, draining) and any additional land betterments. These costs can include the rates charged by Facilities Management Services (which include salaries and wages, fringe benefits, and annual operating costs). If buildings are razed to prepare the land for its intended purpose, the cost of razing the buildings should be capitalized as land improvements.

13. INTANGIBLE RIGHT-TO-USE (LEASED) ASSETS

Definition
Intangible right-to-use (leased) assets are capitalized if the non-cancelable lease agreement meets the definition of a lease (as prescribed by GASB Statement No. 87). Per this standard, a lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Capitalization thresholds are determined based on the underlying assets.

GASB Statement No. 87 excludes certain contracts including leases of intangible assets such as rights to natural resources and licensing contracts (patents, copyrights, and computer software), leases of biological assets (timber, living plants, and living animals), leases of inventory, contracts that meet the definition of a service concession arrangement, and supply contracts.

Lease agreements not meeting this definition are not capitalized. The period payments are recorded as an expense.

Capitalized Costs
The asset is measured at the amount of the lease liability (the present value of the payments expected to be made during the lease term) plus any prepayments and certain initial direct costs. Interest cost is recorded as an expense.

14. INTANGIBLE RIGHT-TO-USE (SUBSCRIPTION) ASSETS

Definition
Assets that are purchased under subscription-based information technology arrangements (SBITAs) with a total cost greater than $50,000. Intangible right-to-use (subscription) assets are capitalized if the non-cancelable SBITA meets the definition of a SBITA (as prescribed by GASB Statement No. 96). Per this standard, a SBITA is defined as a contract that conveys control of the right to use another party's information technology software as specified in the contract for a period of time in an exchange or exchange-like transaction.

GASB Statement No. 96 excludes certain contracts including contracts that solely provide IT support services, contracts that meet the definition of a lease under GASB Statement No. 87, perpetual licensing arrangements, and donated software.

Agreements not meeting this definition are not capitalized. The period payments are recorded as an expense.

Capitalized Costs
The asset is measured at the amount of the subscription liability (the present value of the payments expected to be made during the subscription term) plus any payments made to the vendor at the commencement of the subscription term and capitalizable initial implementation costs. Interest cost is recorded as an expense.

15. LEASEHOLD IMPROVEMENTS

Definition
Improvements to land and building leased by the University. These may include walls and partitions, electrical wiring and fixtures, heating and cooling systems, roofing and plumbing. Repair, maintenance and painting of existing improvements are not leasehold improvements.

Capitalized Costs
Total cost of alterations made to the leased land or building. These costs can include the rates charged by Facilities Management Services (which include salaries and wages, fringe benefits, and annual operating costs).

16. LIBRARY RESOURCES

Definition
Library acquisitions include regular volumes, books, journals, periodicals, archives, subscriptions, microforms, audio/visual media, CD-ROMs, and electronic resources.

Capitalized Costs
Library books and reference materials are capitalized at purchase cost or fair market value for donated books and gifts. Library books are considered a composite asset. Annually, the value of books lost, stolen, destroyed or disposed is deducted from the composite capitalized value of library books.

17. REPAIRS AND MAINTENANCE

Definition
Expenditures incurred to maintain assets in operating condition. Repairs and maintenance does not usually make the asset more useful or add to the estimated life of the asset.
Examples –

Land	mending a broken fence, unclogging drainage systems, and repainting park benches.
Building	replacing old carpet with new carpet, repainting interior or exterior, mending a roof (not replacing a leaky roof).
Equipment	replacing minor parts, lubricating and adjusting, getting a computer cleaned.

Repairs and maintenance expenditures are not capitalized and are charged as an operating expense.

18. WORKS OF ART, LITERATURE AND HISTORICAL TREASURES

Definition
The University maintains various collections of inexhaustible assets including contributed works of art (paintings, sculptures, and other artifacts), historical treasures (memorabilia, unique and significant structures) and literature (rare books and manuscripts). They are held for exhibition, education, research and furtherance of public service. These collections are neither disposed of for financial gain nor encumbered.

Since no value can be practically determined for these assets, such collections are not capitalized.

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West Virginia University

Accounting for Software Development/Implementation Costs
Internally Generated Software
and
Subscription-Based Arrangements

Outline

A. Background
- WVU currently following Governmental Accounting Standards Board (GASB) Statement No. 51, "Accounting and Financial Reporting for Intangible Assets" for internally generated software
- Effective FY 2023, WVU will also be required to follow GASB Statement No. 96, "Subscription-Based IT Arrangements"

B. Definitions
  - Internally Generated Software for Internal Use
  - Subscription Based IT Arrangements

C. Stages of Software Development
- Preliminary
- Application development/Initial implementation
- Post-implementation/operation/Operation and additional implementation

D. Capitalization of Software Costs
- When to capitalize – when to begin and when to cease
- Allowable costs to be capitalized
- Amortization/depreciation of capitalized costs
  - Useful life of capitalized costs
  - Capitalization threshold

E. Upgrades/Internally Generated Modification of Software Already in Operation

F. Costs of Website Development

GASB	Governmental Accounting Standards Board
Capitalization	Recording costs incurred as an asset instead of an expense

A. Background

- State and local governments, including public higher education institutions, are required to follow GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets" for internally generated software.
- Effective FY 2023, these institutions will also be required to follow GASB Statement No. 96, "Subscription-Based IT Arrangements" (SBITAs). Before this statement was issued, there was no specific guidance on accounting for SBITAs.
- Capitalization of costs associated with developing software for internal use is required because such expenditures have future benefits. Software is an important strategic or economic resource of the institution and the development and implementation of software is not conceptually different from the process of creating a tangible or hard asset.
- The key characteristics of a lease and a SBITA are similar; they are both financing arrangements. These contracts provide the right to use an underlying asset for a specified period of time.

B. Definitions

Internally Generated Software for Internal Use

- Internally generated software is defined as software that is developed internally or by a third party contractor on behalf of the institution. Commercially available software that is purchased or licensed by the institution and modified using more than incremental effort before being put into operation is also considered to be internally generated.
- Software that is acquired or created primarily for the purpose of directly obtaining income or profit is excluded from this definition.

Subscription-Based IT Arrangements

- An SBITA is defined as a contract that conveys control of the right to use another party's software, alone or in combination with tangible capital assets, as specified in the contract for a period of time. SBITAs commonly include provisions such as remote access to software applications or cloud data storage and differ from traditional arrangements in that they allow temporary use that ends when the subscription expires. (The three most common deployment models for cloud computing are Software as a Service (SaaS), Platform as a Service (PaaS), and Infrastructure as a Service (IaaS)).

- Contracts that solely provide IT support services are excluded.
- If the contract includes both tangible capital assets and the cost of the software component is insignificant compared to the cost of the tangible capital assets, the contract is excluded as an SBITA and will be accounted for as a lease.
- If the contract includes both a subscription component (the right to use an underlying asset) and a non-subscription component (for example, a separate perpetual licensing arrangement or maintenance services), the components should be accounted for separately.

C. Stages of Software Development

- <u>Preliminary Project Stage</u>
  (Costs should be expensed as incurred & not capitalized)

  Includes the following activities –
  - conceptual formulation of alternatives
  - evaluation of alternatives
    - assembling the evaluation team
    - evaluating vendors' proposals
    - considering other reengineering efforts
  - determination of existence of needed technologies to develop the software
  - final selection of alternatives

- <u>Application Development/Initial Implementation Stage</u>
  (Cost Accumulation Phase – costs should be capitalized)

  Includes the following activities –
  - design of chosen path including software configuration and software interfaces
  - coding
  - installation of computer hardware
  - testing, including parallel processing phase
  - other activities necessary to place the asset/software into service

- <u>Post-Implementation/Operation/Operation and Additional Implementation Stage</u>
  (Costs should be expensed as incurred & not capitalized)

Includes the following activities –
- training
- application maintenance
- data conversion
- troubleshooting
- other activities that occur after the asset/software is placed into service

D. Capitalization of Software Costs

- <u>When to capitalize</u>

    - Capitalization of costs should begin when both:
      a) the Preliminary Project phase is complete and
      b) the institution's management has authorized or committed to funding the software project with the intent it will be completed and used to perform its planned functions.

        - For commercially developed software that will be modified to the point that it is considered to be internally generated, (a) and (b) are considered to have occurred upon the institution's commitment to purchase or license the software.

    - Capitalization should cease no later than the time at which the software is substantially complete and operational.

    - The University's capitalization threshold is $100,000 for internally generated software.

    - The University's capitalization threshold for SBITAs is $50,000. (WVU Parkersburg's threshold is $20,000.)

- <u>Allowable costs to be capitalized</u>

  The following internal and external costs associated with the Application Development/Initial Implementation phase should be capitalized:

    - External direct costs from third party transactions including:

- Cost of obtaining software from third parties, including licensing/subscription agreement (in accordance with WVU's capitalization policy and applicable governmental accounting standards as determined by Institutional Accounting, Reporting and Analysis)
- Cost of contract services associated with the project
- Cost of capital items purchased solely for the project (in accordance with WVU's capitalization policy)

- Payroll & payroll-related costs including:
  - Salaries and benefits of all personnel formally assigned to the project at a minimum effort of 25% (i.e., employees who are directly associated with and devote time to coding, installing or testing the software)
  - Travel costs incurred by such employees in their duties directly associated with the software development/implementation

- Cost of developing or obtaining bridging software (software that allows for access or conversion of old data by new information systems) only if there is an alternative future use to such software.

- Data conversion, only to the extent that it is determined to be necessary to make the software operational.

The following costs should not be capitalized:

- general and administrative costs
- overhead costs (rent, security or building maintenance)
- training costs
- maintenance costs

- Amortization/depreciation of capitalized costs – Internally Generated Software

  - Useful life of capitalized costs should exceed one year. In accordance with WVU's capitalization policy, capitalized software will be amortized/depreciated over 5 years.

  - Accumulated costs of developing software for internal use should equal or exceed $100,000 for capitalization.

- Amortization of capitalized costs – Subscription-Based IT Arrangements

- Useful life of capitalized costs should exceed one year. Subscription assets will be amortized over the shorter of the subscription term or the useful life of software in accordance with WVU's capitalization policy (5 years).

- The University's capitalization threshold for SBITAs is $50,000. (WVU Parkersburg's threshold is $20,000.)

E. Upgrades/Internally Generated Modification of Software Already in Operation

- Internally generated modification of software that is already in operation should be capitalized if the modification results in any of the following:

    - An increase in the functionality of the software, that is, the software is able to perform tasks that it was previously incapable of performing
    - An increase in the efficiency of the software, that is, an increase in the level of service provided by the software without the ability to perform additional tasks
    - An extension of the estimated useful life of the software.

- If the modification does not result in any of the above outcomes, the modification should be considered maintenance and the associated costs should be expensed as incurred.

F. Costs of Website Development

- Not accumulating costs since current standards do not apply to public higher education institutions.

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