



**COMMUNITY
FOUNDATION**
of Northern Nevada

COMMUNITY FOUNDATION OF NORTHERN NEVADA CAPITALIZATION POLICY

I. Purpose

The purpose of this Capitalization Policy is to provide direction to capitalization of property acquired and owned by the Community Foundation of Northern Nevada (“Community Foundation”) for accounting, auditing, and financial reporting purposes. The policy applies to any item(s) valued at more than \$1,000.

II. Policy

Capital property at the Community Foundation is both tangible and intangible personal property having a useful life of three years or more and an acquisition cost of \$1,000 or more per unit. All property meeting this definition should be recorded on the Community Foundation's property inventory.

III. Personal Computers

All personal computer system packages valued at \$1,000 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 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 “Repairs, Replacements, and Upgrades.”

IV. Software

Software is intangible property and is considered property under this policy. The value of pre-loaded computer software may be included in the cost of equipment recorded on the Community Foundation's inventory when the cost of this software is not separately identified on the sales invoice. Software purchased separately – after the equipment has been received and made operable – should be added to the value of equipment listed on the inventory except if the cost of the software is greater than \$1,000, in which case it should be recorded separately.

V. Accessory Equipment

When an accessory meets all the criteria of capital equipment (i.e., property having a useful life of three or more years and an acquisition cost of \$1,000 or more), it should be treated as a separate item of capital property and assigned a Community Foundation control number and recorded on the Community Foundation's property inventory.

VI. Donated Equipment

Equipment donated to the Community Foundation by a third party is covered by this policy. For capitalization purposes, the recorded value and life of the donated property should be the fair market value of the property 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.

VII. Capitalized Loans

Notes payable for a period of more than one year to the Community Foundation by a third party are covered by this policy. For capitalization and inventory purposes, the recorded value of the note should be the principal market value of the note at the date of the note.

VIII. Capitalized Manufactured Equipment

Capitalized manufactured equipment is equipment that is assembled or manufactured by the Community Foundation using purchased materials, in-house machinery or tools, and Community Foundation labor. Manufactured equipment valued at \$1,000 or more and having a useful life of one year or more shall be capitalized and recorded on the Community Foundation's equipment inventory. Departments manufacturing equipment are responsible for assisting the Accounting & Finance Department in determining the cost of the equipment.

IX. Repairs, Replacement, and Upgrades

Property repair, replacement, and upgrade costs will be capitalized only when these costs are \$1,000 or more and they extend the useful life of the original piece of property by one year or more. When these costs are capitalized, the asset value and useful life of the original piece of property – as recorded on the Community Foundation's property inventory – should be updated to reflect the new value and remaining useful life of the asset.

X. Leased Assets

Leased assets shall be capitalized and recorded as a finance lease if the lease agreement meets any of the following criteria under ASC 842-10-25-2:

- The lease transfers ownership of the underlying asset to the Community Foundation by the end of the lease term;

- The lease grants the Community Foundation an option to purchase the underlying asset that the Community Foundation is reasonably certain to exercise;
- The lease term is for the major part of the remaining economic life of the underlying asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset, this criterion shall not be used for purposes of classifying the lease;
- The present value of the sum of the lease payments and any residual value guaranteed by the Community Foundation that is not already reflected in the lease payments in accordance with paragraph 842-10-350-5(f) equals or exceeds substantially all of the fair value of the underlying asset;
- The underlying asset is of such specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

When none of the criteria in paragraph ASC 842-10-25-2 are met, the Foundation shall classify the lease as an operating lease and record a right to use asset and liability.

XI. Intangible Assets

Intangible assets are those that lack physical substance and are non-financial in nature. They must be identifiable, meaning they are either capable of being separated by means of sale, transfer, license, or rent, or they arise from contractual or legal rights.

- Software Development

For software developed or obtained for internal use, the Community Foundation will conform to the guidance in ASC 350-40 that states that internal and external costs incurred to develop internal-use computer software during the application development stage shall be capitalized. The internal-use software must have both of the following characteristics to be capitalized:

- The software is acquired, internally developed, or modified solely to meet the entity's internal needs; and
- During the software's development or modification, no substantive plan exists or is being developed to market the software externally.

For the cost of specified upgrades and enhancements for internal-use computer software to be capitalized, it must be probable that those expenditures will result in additional functionality.

- Intangible Assets – Other

Examples include, but are not limited to, land use rights or easements, patents, copyrights, trademarks, permits, and licenses.