

UNIVERSITY OF ROCHESTER

GUIDELINES

FOR

CAPITALIZATION OF ASSETS

Revised December 2011

PLANT AND EQUIPMENT CAPITALIZATION POLICY

This policy does not apply to property, plant and equipment for Strong Memorial Hospital

Criteria for Capitalizing Plant and Equipment Acquisitions

INTRODUCTION: This policy outlines in general terms the distinction between capitalized and non-capitalized plant and equipment acquisitions. Plant is divided into three categories (land, buildings and improvements other than buildings). Equipment is categorized as either movable or fixed. Each category will be defined below along with the respective capitalization method.

Capitalized Expenditures

A. Land

1. New acquisitions of land are capitalized at cost.
2. Land given to the University has a value established by an appraisal. The value is the fair market value as of the date of the gift.

B. Buildings

1. Non-research buildings are treated as a single asset without separating the “shell” from other building components. Research buildings (as defined by the University’s space survey) are componentized.
2. Building additions that add square footage to a building are capitalized.
3. Certain major replacements or renovations of a building, which extend the original life of the building and/or enhance the value to the University, may be capitalized. Projects which involve expenditures of \$50,000 or less will be expensed (except for any movable equipment with a purchase cost of greater than \$1,000).
4. See attachment A for examples of capital building expenditures.

C. Improvements other than Buildings

1. This category consists of land improvements outside the periphery of the building. Examples include: roads, sidewalks, tunnels, tennis courts, athletic fields, steam lines, electric lines, telephone lines, etc.
2. Improvements have the same capitalization criteria as buildings.

D. Movable Equipment

1. Items of equipment or furnishings that have an acquisition cost of \$1,000 or more and a life expectancy of two or more years are capitalized. A unit cost includes the cost of any modifications, attachments or accessories necessary to make it useable for the equipment's intended purpose. Delivery and installation costs are included in the unit cost.
2. Expenditures for the restoration or betterment of equipment may be capitalized if the expenditure restores the item to like new condition and/or extends the useful life and increases the item's book value. The item will be capitalized at the restoration cost, provided the item meets the University's capital threshold requirements. This capitalized cost should never exceed the present market value of the item.
3. An accessory purchased after the first year of an item's acquisition must meet the University's moveable equipment capitalization threshold and will be capitalized separately.
3. Group or mass purchases (initial complement) of furnishings or similar items for a newly constructed building, which individually are less than the capitalization threshold, are capitalized and depreciated over the average useful life of the items.
4. Software purchases processed on a separate purchase order will be capitalized and issued a property tag as long as the unit cost is \$10,000 or more.

E. Fixed Equipment

1. Fixed equipment that can be inventoried is classified as equipment with the above-mentioned properties of movable equipment "that are merely attached or fastened to the building but not permanently fixed and are used as furnishings, decorations or for specialized purposes (e.g., dentist chairs and dental treatment units, counters, laboratory benches bolted to the floor, dishwashers, and carpeting). Such equipment and assets will be considered as not being permanently fixed to the building if the items can be removed without the need for costly or extensive alterations or repairs to the building to make the space usable for other purposes" (OMB Circular A-21). The method of capitalization for fixed equipment is the same as for movable equipment.

F. Fabricated Equipment

1. Please see OPRA (Office of Research Policy and Administration)'s policy located at <http://www.rochester.edu/ORPA/policies/equipfab.pdf>.

Expenditures that should not be capitalized as plant and equipment

1. Expenditures for repairs, maintenance or replacement of component parts which do not extend the unit's original life or increase the net book value.
2. Expenditures for moving partitions in an existing building or renovations that do not add value to the buildings.
3. Expenditures incurred in connection with the rearrangement, transfer or moving of capitalized items from one University location to another.
4. Expenditures made to maintain fixed assets in normal operating condition and/or to restore fixed assets to normal operating condition.

Depreciation

Depreciation of research building components is calculated using the straight-line method over the useful lives of the components ranging from five to fifty years. Depreciation of non-research buildings, equipment and library books and amortization of leasehold and land improvements are computed using the straight-line method over the estimated useful lives of the assets. Land and museum collections are not subject to depreciation. A full year of depreciation is taken in the year of acquisition and, accordingly, no depreciation is taken in the year of disposition. Estimated useful lives, in years, for non-research assets are as follows:

<u>Asset class</u>	<u>Useful life</u>
Building	40
Building and leasehold improvements	20
Land improvements	20
Equipment	4 to 15
Library books	10

Disposition

Upon disposal of any piece of equipment, the equipment should be disposed of through URSpace (the University's space management system) using the disposition tab with a reason for the disposal. Plant and Debt Accounting will review and approve the disposal once the disposal is requested on URSpace. If the disposal is not approved, Plant and Debt Accounting will contact the department directly.

If the equipment's title does not vest with the University, the department must contact the sponsor directly to transfer title to the University. Upon disposition, departments must provide support of the sponsor's permissions to dispose of the property to Plant and Debt Accounting.

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CONSTRUCTION, BUILDING ACQUISITIONS, AND NEW ADDITIONS

In all cases expenditures for new construction, building additions and/or acquisitions will be capitalized.

Examples of construction costs considered to be capital expenditures include:

- Demolition costs - preparing the site
- Cost of building materials
- Contractor and construction costs
- Architect/consultant fees
- Building permit fees
- Subcontract fees
- Payment for rented equipment to complete the construction
- Operating and maintenance costs for equipment used in the construction
- Compensation paid employees for work performed in building the asset
- Cost of supplies consumed in the construction

Capitalization will take place at 90% completion of the construction project and if the asset has been put into service for its intended use and/or is occupied.