

UNIVERSITY OF ROCHESTER

GUIDELINES

FOR

CAPITALIZATION OF ASSETS

June 2005

PLANT AND EQUIPMENT CAPITALIZATION POLICY

This policy does not apply to Strong Memorial Hospital.

Criteria for Capitalizing Plant and Equipment Acquisitions

INTRODUCTION: This policy outlines in general terms the distinction between plant and equipment acquisitions that are capital or non-capital. 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 along with its respective capitalization method.

Expenditures that are Capitalized

A. Land

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

B. Buildings

1. Non-research buildings are treated as a single asset without separating its “shell” from other building components. Research buildings (as defined by the University’s space survey) are componentized.
2. New Additions to buildings that add area to the buildings are capitalized.
3. Certain major replacements or renovations of a building, that extend the original life of the building and/or enhance its value to the University may be capitalized. Projects which involve expenditures of \$50,000 or less will be considered expense (except for any movable equipment worth more 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. It includes: roads, sidewalks, tunnels, tennis courts, athletic fields, steam lines, electric lines, telephone lines, etc.
2. The capitalization criteria are the same as used for building capitalization,

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. (**)

Plant and Equipment Capitalization Policy (Continued)

D. Movable Equipment (Continued)

2. Expenditures for the restoration or betterment of equipment may be capitalized if it restores the item to like new condition and/or extends the useful life and increases the item's book value. If the item is capitalized, it will be at the restoration or betterment cost. 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 all the criteria of capitalized equipment. It will be treated as a separate item of equipment.
4. 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.

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 they 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. See attachment B for fabricated equipment policy.

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 add to its net book value.
2. Expenditures for moving partitions in an existing building. Other items of 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.
3. Expenditures made to maintain fixed assets in normal operating condition and/or to restore fixed assets to normal operating condition.

(**) The University increased its equipment capitalization threshold from \$500 to \$1,000, effective July 1, 1996, and phase-in for sponsored projects beginning July 1, 1997.

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

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CONSTRUCTION, BUILDING ACQUISITIONS, 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
- Architect's 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.

EQUIPMENT – FABRICATION

Fabrication of Special Purpose Capital Equipment

The following establishes a policy and working procedure when a Principal Investigator wishes to build or fabricate a piece of capital equipment. These instances arise when it is more economically feasible or fabrication is the only means of acquiring the specialized equipment. The sponsor has generally approved such fabrication. The budget line items associated with the fabrication include purchases of items that are less than \$1,000 as of July 1, 1997; these costs are exempt from indirect (F & A) costs.

Definition

Special purpose equipment that is to be assembled or fabricated will result in an article of nonexpendable tangible property having a useful life at least two years, and total acquisition cost of \$1,000 or more. The unit consists of items or assemblies of parts that are interconnected and interdependent so as to become a new functional entity for special purposes. “Special purpose equipment” means equipment, which is used only for research, medical, scientific, or other technical activity.

Approval of Fabrication

- 1) It is the responsibility of the Principal Investigator to advise ORPA when a special purpose equipment item is to be fabricated. Unless a full description of the item is given in the approved proposal, written documentation will be required and must be submitted to ORPA for approval prior to any initial purchase. If a description of the fabrication item has been included in the approved proposal, a copy of this description should be attached to the initial purchase requisition. This written documentation should include a description of the item to be fabricated, a scientific justification, a breakdown of items and costs that will be used in the fabrication, and the total cost of the components to be purchased. When appropriate (i.e., when the sponsor’s award does not fall under expanded authorities), sponsor approval will be sought at this point in time. ORPA will also determine at this time whether the fabricated item will be sponsor-owned or university-owned in accordance with the terms of the sponsor’s award.
- 2) ORPA will send a separate memo of approval of fabrication and an outline of the Purchasing procedure back to the Principal Investigator. Sponsored Programs Accounting and Property Accounting will be copied in on this memorandum, and notified as to the title disposition of the equipment. A copy of the full description of the fabrication will also be sent to Property Accounting along with the approval memo.

- 3) Upon receiving the copy of the approval memo, Property Accounting will assign a property tag and inform the Department by phone of the tag number. Upon receipt of the copy of the Equipment – Fabrication (Continued)

CWO, requisition or invoice for the first authorized purchase, Property Accounting will send the property tag to the Department. It is the Principal Investigator’s responsibility to ensure that the tag is placed on the equipment.

- 4) Each subsequent order for components of the approved fabrication should state that it is a “Component of (NAME OF ITEM OF EQUIPMENT)” and should indicate the property tag number. (As noted above, a property tag number will be assigned to the equipment after ORPA approval has been obtained). Copies of all subsequent CWO’s related to the fabrication should be sent to Property Accounting by the Department for tracking purposes. All components of fabricated items should be coded with the “2690” subcode, even if these individual items are \$1,000 or more.

Accounting Procedures for Fabrication

- 5) Items within a fabrication that can “stand-alone” and have a value of \$1,000 or above will be issued their own property tag. A “stand-alone” item functions as a separate piece of equipment once the fabricated unit is disassembled. On requisitions or CWO’s, it must be stated if an item is a stand-alone unit. All other components of a fabrication will have a single property tag assigned; this is the tag number that departments reference on all requisitions whether or not a “stand-alone” unit is being purchased. Individual tags for stand-alone units are assigned for property accounting purposes. Property Accounting will determine when a separate tag number is required. An illustration of two stand-alone units within a fabrication is shown below:

COMPUTER TAG #	ALL OTHER COMPONENTS FOR FABRICATION OWN TAG #	LASER TAG #
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- 6) To further illustrate tagging of stand-alone components, the following example is offered. The fabricated unit may include a computer workstation, including a logic unit, a monitor, a keyboard or other input device, and a printer or other output device. To be considered part of the fabricated unit, the computing equipment must be clearly shown or justified to be essential to the operation of the fabricated equipment. For purposes of the inventory, any individual stand-alone component costing more than \$1,000 will receive a separate tag. For instance, the requisition or CWO for a computer workstation should cite the tag number for the larger overall fabricated unit; it will be the responsibility of Property Accounting to issue the individual tag, if necessary.

Equipment – Fabrication (Continued)

- 7) The University does not capitalize labor costs. Therefore, labor expenses should never be assigned to the “2690” subcode. Similarly, fully costed University shop charges should also be charged to the appropriate shop subcode “2680”.
- 8) Any items purchased to upgrade or replace an existing fabrication should reference the property tag that is on the existing piece of equipment. These items are NOT considered fabrication. The department should use subcode 21XX, if the item is under \$1,000, or 26XX if \$1,000 or more. The department should indicate on Requisitions or CWO’s stating whether it is an upgrade or replacement.
- 9) Items that do not have useful life of at least two years, or that are general-purpose in nature can not be considered components of fabrication. Generally, these are considered supplies. Examples of such items that cannot be coded with the 269X subcode are tools, glassware, office supplies, furniture components or chemicals.
- 10) It is the Department’s responsibility to notify Property Accounting in writing (referencing the account number and fabrication tag number) when the fabricated item is completed . This would normally be at the point when the fabricated item can perform the basic function or tasks for which it was intended.
- 11) If the item becomes obsolete, or is no longer being used, and the department wishes to breakdown or dispose of the item, Property Accounting must be notified using a Property Disposition Request form.

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