

# GUIDELINES FOR CAPITALIZATION OF ASSETS

**Responsible Official:** Associate VP for Financial Operations and University Controller

**Administering Department:** Financial Reporting and Accounting Operations

**Effective Date:** July 1, 1998

**Revised:** November 2018

## PROPERTY, 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. Property and 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.

In UR Financials, the University's general ledger system, all fixed assets should be charged to a trackable spend category. Please view the View Trackable Spend Category report within UR Financials for further detail. Financial Reporting reviews all charges posting to trackable spend categories and will move charges that do not meet the University's capitalization threshold as specified below.

### 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).
  
- 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 greater than one year are capitalized. This includes the cost of any modifications, attachments or accessories necessary for the equipment's intended purpose. Delivery, installation, and initial equipment calibration are also included in the total equipment 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 not exceed the present market value of the item.
3. Accessories purchased after the first year of an item's acquisition must meet the University's movable equipment capitalization threshold and will be capitalized separately.
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.
5. 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.
6. Equipment gifted to the University should be processed through Gift and Donor Records. Financial Reporting will review the supporting documentation and issue property tag(s) if the item meets the University's capitalization policy.

E. Fixed Equipment

1. Fixed equipment has the same capitalization threshold as movable equipment, but the cost center is not required to track fixed equipment for equipment survey purposes. These assets are stationary and are attached to another structure, such as a wall or floor. Examples of fixed equipment include biosafety cabinets, audio visual systems, cubicle walls, time clock machines, and fume hoods.

F. Fabricated Equipment

1. Please see ORPA's (Office of Research Policy and Administration) policy located at [https://www.rochester.edu/orpa/\\_assets/pdf/policy\\_fabricationPolicy.pdf](https://www.rochester.edu/orpa/_assets/pdf/policy_fabricationPolicy.pdf).

Expenditures of costs considered to be capital expenditures include:

1. Demolition costs and preparing the site for construction
2. Cost of building materials
3. Contractor and construction costs
4. Architect and consultant fees
5. Building permit fees
6. Subcontract fees
7. Payment for rented equipment to complete the construction
8. Operating and maintenance costs for work performed in building the asset
9. Cost of supplies consumed in the construction

Fixed assets will be transferred from construction in progress and depreciation will begin to be recognized once the construction project cost is at 90% completion of the total project budget and if the asset has been put into service for the intended use and/or is occupied.

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. Examples of these include carpet installations, paint and patching of walls, and pothole repairs.
2. Expenditures for moving partitions in an existing building or renovations that do not add value to the buildings that are not part of an overall renovation.
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 four 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 final year of the asset's estimated useful life. 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

Movable equipment should be disposed of through URSpace (the University's space management system) using the disposition tab with a reason for the disposal. Financial Reporting will review and approve the disposal once the disposal is requested on URSpace. If the disposal is not approved, Financial Reporting will contact the cost center directly.

If the equipment's title does not vest with the University, the cost center must contact the sponsor directly to transfer title to the University. Upon disposition, cost centers must provide support of the sponsor's permissions to dispose of the property to Financial Reporting.