

POLICY FOR CAPITALIZING EXPENDITURES:

GENERAL CONCEPT:

Capitalization is a financial reporting concept. The level at which individual items will be capitalized and depreciated for financial reporting purposes is \$5,000. The expected life of the asset has at least 3 years .

Effective 7/1/2008, all references to \$5,000 will become \$10,000.

• **Group aggregation** aka. **“a Project “**

– if the amount of a single item is less than \$5,000 but the aggregate cost of a quantity of the same item being purchased is in excess of the \$5,000, the items should be capitalized as a group, if it is Suffolk’s normal business practice to purchase and replace the items as a group. An example would be computers purchased to create a computer lab. A single purchase of computers with a total cost exceeding \$5,000 to be used in multiple offices would be an example of a purchase not capitalized. The purchase of lap tops each costing less than \$5,000 for the faculty would be another example of a purchase not capitalized.

◆ Project Aggregation – when a project is defined, its components will be aggregated into a “Project Budget” in the format attached, and will include all related project cost categories, including construction, architecture/engineering fees, a/e reimbursable expenses, project management, FF&E, tel/data, and related testing and analysis, all necessary to define and complete the project in a comprehensive and complete manner.

ASSET VALUATION:

Capitalized assets should be recorded at historical cost or, if the cost is not readily determined, at estimated historic cost. All costs shall be documented, including methods and sources used to establish any estimated costs.

• Purchased assets – the recording of purchased assets should be made on the basis of actual costs, including all ancillary costs, based on vendor invoice or other supporting documentation.

For buildings and improvements, ancillary costs include professional fees of architects, attorneys, etc., costs of fixtures permanently attached to a building or structure, interest on borrowed funds, and other expenditures necessary to place the building into its intended use.

For equipment, ancillary costs include transportation charges, installation costs and other expenditures necessary to place the equipment into its intended use.

• Self-constructed assets – all direct costs (including labor) associated with the construction project should be included in the asset cost.

ASSET CLASSIFICATION:

Capital assets should be classified in one of the following categories and depreciated (except land) according to their designated useful lives

1) Land – Expenditures for the purchase of land with title owned by the University. It may include closing costs, appraisals, legal and title fees, purchase of rights of way and site preparation.

2) Land Improvements – Expenditures for acquiring improvements to land or property surrounding the buildings (not associated with building structure itself). Includes improvements that deteriorate with use or passage of time such as drainage systems, driveways, parking lots, sidewalks, fences, area lighting of streets and parking lots, retaining walls and athletic fields/courts. This may include expenditures for improvements that produce permanent benefits, such as fill and grading costs that are intended to make the land ready for its purpose.

3) Buildings – Expenditures for contracted construction of new permanent structures, additions to or acquiring of existing buildings, not including land. However, this also includes the cost of blasting and preparing the land on which the building will stand, as well as the cost to demolish any structures being replaced.

4) Building Improvements – Expenditures for improvements to existing buildings, including property permanently attached to, or an integral part of, the structure. This includes major permanent structural alterations, roof replacements, interior or exterior renovations, fire protection systems installation or upgrade, electrical and plumbing upgrades, HVAC installation or upgrade and installation of elevators. Each improvement will be capitalized and depreciated as its own asset, separate from the original building asset.

- Costs of \$5,000 or more incurred in connection with significant alterations or structural changes in an existing building that result in greater usefulness, increased efficiency, or the increased life of a building should be capitalized.

- Leasehold improvements are additions and modifications to leased space to meet tenant use requirements. Leasehold improvements of \$5,000 or more are to be capitalized.

- Computer infrastructure costs such as routers, hubs, wiring including excavation for connection points shall be capitalized.

5) Vehicles, Machinery and Equipment – Expenditures related to the acquisition of vehicles and equipment (i.e. heavy equipment, public safety equipment, furniture and fixtures and computer/electronic equipment). Included are expenditures for lab, audio-visual and telecommunication equipment.

- Vehicles would be assigned a useful life of 3 years.

6) Construction in Progress – Expenditures for construction work undertaken, but not yet completed (usually a capital project). For construction in progress assets, no depreciation is recorded until the asset is placed in service. When construction is completed, the asset should be reclassified as building, building improvement, land improvement or equipment and should be capitalized and depreciated. A project is considered complete if it is 90% complete and is being used for its intended purpose

Costs that are not generally capitalized and therefore should be budgeted in Fund 1 include:

- Minor repairs, i.e., normal, regularly recurring expenditures to keep property in an efficient operating condition, neither adding to the value of property, nor prolonging its life.
- Roof repair
... (roof replacements will be capitalized).
- Costs of moving a department into a building.
- General campus planning and studies that are not related to any specific building or structure.
- Costs incurred on a project that is subsequently abandoned.
 - ◆ Computer Software/Licenses/Etc. – This intangible asset includes externally purchased software costs, not including hardware components. The University has adopted a policy where computer software is not capitalized. All maintenance, enhancements, upgrades, and training costs will be expensed as incurred. Annual software license fees and maintenance costs will be expensed, whether the fees are paid monthly or annually. This applies to software "leases" where the University does not own the software, but may operate it for as long as the license/maintenance fees are paid.

PURCHASE ORDERS, AUTHORIZATION, FUNDING:

- Purchase orders need to be completed before the expense is incurred.
- The source of funding for all capitalized expenditures needs to be identified.

Sources of funding:

Fund 5 Construction Fund.....Bond Issue
Fund 6 Current Operations Budget
Fund 8 Building Funds CAS, SBS, LAW, RENEWALS

- All purchase orders charged to a Building Fund (Fund 8) will need to be approved and signed by it's Dean and the Vice President/Treasurer. **Projects** charged to Fund 8 will normally be in excess of \$50,000; otherwise fund 6 shall be used.

Note: Fund 6 is charged to current operations so it's important that it's budgeted for.