Suffolk University

Capitalization, Depreciation and Disposal of Capital Assets

Responsible Office Controller's Office **Effective Date 07/01/2020**
Responsible Official Controller **Last Revision 07/01/2016**

Scope
This policy provides guidelines for the capitalization of major expenditures related to the acquisition, construction, and renovation of capital assets, and for the depreciation and disposal of such assets.

Reason for the Policy
This policy seeks to:
- promote consistent and proper accounting for University assets and expenses in conformity with Generally Accepted Accounting Principles (GAAP);
- define those costs that are to be capitalized to properly reflect the cost of the asset during its useful life.

Policy Statement
Costs incurred for the purchase, construction, or renovation of buildings or portions thereof should be capitalized only if:

- the total eligible costs related to a capital construction project (see definition) equal or exceed $10,000.

Costs incurred for the purchase of furniture, software or equipment should be capitalized only if:

- the cost of an individual piece of furniture or equipment, including storage, delivery and set up charges, equals or exceeds $10,000.

- the amount of a single item is less than $10,000 but the aggregate cost of a quantity of the same item being purchased is in excess of $10,000. 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. Examples are: computers purchased to create a computer lab; a single purchase of computers with a total cost exceeding $10,000 to be used in multiple offices; the bulk purchase of laptop computers each costing less than $10,000 for employees (faculty and staff). (Mass Asset)

- the cost of computer software, either purchased or developed, for the University's internal use equals or exceeds $10,000.

- The cost of library books are capitalized and considered a mass asset so that the purchases in the aggregate are capitalized when the annual budget equal or exceeds $10,000. E-books are capitalized when Suffolk owns them even if the platform that they are housed on no longer exists. Suffolk would retain the content and move it to new technology.

All other costs not specifically addressed in this policy statement are to be considered as operating expenses and should be included in the administration, school or department operating budgets.

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Section 1: Definitions

Capital assets – Furniture and equipment (movable or fixed, non-movable); computer software; library books; and land, buildings and improvements that are held for purposes other than investment or resale.

Capital costs - Direct and incidental expenses related to the acquisition, construction or improvement of capital assets.

Capital construction projects – Projects where expenditures of $50,000 or more are for construction and related costs, including furniture and equipment.

Computer software – includes:

1. Off the shelf software residing on the University's hardware, or
2. Software as a service (SaaS) hosted by a vendor where the University uses the software over the Internet and meets the two conditions as defined in ASU 2015-05.
    a. Contractual right to take possession of the software and any time during the hosting period without significant penalty.
    b. It is feasible to either run the software on the University's own hardware or contract with another party unrelated to the vendor to host the software.

    In accordance with ASC Subtopic 350-40*, Intangibles—Goodwill and Other—Internal-Use Software* The license portion of the software is to be capitalized as internal use software.
3. Excludes software implementation costs for hosted software. These costs are NOT recorded as a capital asset. Contact the Controller for additional information on deferring implementation costs.

Furniture or equipment – Includes moveable or fixed, non-moveable furniture and equipment. This purchase need not be part of a capital project, and must be equal to, or greater than $10,000

Examples of Fixed, non-movable versus movable furniture or equipment

Fixed, non-movable furniture or equipment is attached or fastened to a building and cannot be removed without the need for repairs to the structure to make the space useable. Examples of fixed equipment are fume hoods, counters, flooring, and security systems.

Movable furniture or equipment can be moved. Examples are desks, chairs, computers, freezers, vehicles, centrifuges, modular workstations.

Mass Asset - A collection of similar items that individually are less that the threshold, but exceed it when purchased together.

Plant, Property and Equipment (PPE) - Land, buildings, improvements, furniture and equipment, computer software and library books that are capitalized to comply with Generally Accepted Accounting Principles (GAAP).

Capital Construction project stages:

Preliminary stage - The initial stage of a construction or acquisition project during which various opportunities for acquisition or construction of PPE are explored. Feasibility, Due Diligence and other related studies often occur during this stage. During the preliminary stage, payments to obtain an option to acquire PPE should be capitalized. All other costs should be expensed as incurred.

Pre-acquisition stage - When the acquisition or construction of a specific PPE is considered probable. Activities often include surveying, zoning, and engineering studies. During the pre-acquisition stage, costs are expensed as incurred unless the costs are directly identified with the specific PPE. Directly identifiable costs to be capitalized include only:

- direct costs incurred with independent third parties, Examples are: surveying, zoning and engineering studies.
- payments to obtain an option to acquire PPE.

Acquisition stage - The University obtains ownership or the rights to use the PPE through an agreement (such as a deed or lease).

Construction stage – The University constructs new or renovates all or a portion of a building or property, all of which is considered PPE.

In Service stage - The PPE is substantially complete and is ready for its intended use. The *In Service Date* of a building is often the date that the Certificate of Occupancy is obtained.

Move-in period – The PPE is complete and ready for its intended use.

Internal Software Development Stages:

Note: Internal software development is different from implementation costs on licensed and hosted software that are not capital assets.

1. **Preliminary Project Phase –** includes the conceptual formulation and evaluation of software alternatives, determination of existence of needed technology and final selection of alternatives.
2. **Application Development Stage –** characterized by design of chosen path, including software configuration and software interfaces, coding, installation to hardware and testing, including parallel processing phase.
3. **Post-Implementation/Operation Stage** – characterized by training and application maintenance.

Only costs incurred in the Application Development State are capitalized. Such costs include: purchased software, external consultants dedicated to the development and implementation of the computer project, cost to develop or obtain software that allows for access or conversion of old data by new system. Capitalization ends when the software is in operation.

Additional costs incurred for specific upgrades and enhancements, which enable the software to perform additional features or new functionality, should be capitalized if the cost exceeds $10,000.

Examples of costs that are not capitalized are: initial evaluation of alternative software choices, training costs, maintenance and warranty costs, and license agreements (unless for periods in excess of 12 months).

Section 2: Initial Project Set Up

Capital Construction Projects: Capital construction projects may be specific to a department, school or pertain to the University as a whole. The Director of Capital Projects and Construction initiates the project setup, manages the capital budgeting and funding, manages the capital project and monitors costs charged to the project. The Controller's Office monitors capital accounting policy, ensures that costs charged to capital projects are accurate and reported properly in the University financial statements.

- Costs of less than $10,000 incurred in connection with a capital construction project including significant alterations or structural changes in an existing building should not be capitalized. The costs should be expensed as incurred by the department, school or administration.

- All costs incurred in connection with 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 and approved by the Director of Capital Projects and Construction. The total cost of the project must be $10,000 or greater.

- Leasehold improvements are additions and modifications to leased space to meet tenant use requirements. Leasehold improvements of $10,000 or more are to be capitalized. The useful life of the improvement would be determined by the shorter of the number of remaining years on the lease or the useful life of the asset.

When a project is defined, its components will be aggregated into a "Project Budget". Capital assets should be classified in one of the following categories and be depreciated (except land) according to their designated useful lives.

Section 3: Other Capitalization Considerations

Land and Land Improvements

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. The land associated with a building purchase can be segregated and classified separately based on the value determined by a third party.

Land Improvements – Expenditures for acquiring improvements to land or property surrounding the buildings (not associated with building structure itself). Land improvements include 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.

Land costs should be capitalized but not depreciated. However, land improvements that increase the usefulness of the land but have finite lives, such as the paving of a parking lot or installation of fencing or lighting, include costs that should be depreciated over the useful life of the improvement. Treatment of costs incurred for the demolition of an existing building depends on the intention. If land is purchased with an existing building on it, with the intent to demolish the existing building in order to make way for the construction of a new building, the cost of the demolition is considered part of the cost of the land.

Buildings and Building Improvements

Buildings – Expenditures for construction of new permanent structures, or acquisition of existing buildings, not including land.

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

An example of a noncapital cost, i.e. operating expense, is painting after the initial move-in stage.

Section 4: Verification of Capitalization

All costs charged to capital construction projects require authorization and approval by the project manager, and the Office of Campus Planning and Facilities, and are subject to review by the Controller's Office.

Section 5: Stages of Construction

See Definition Section for description of Project Stages.

During all construction stages, direct overhead costs such as occupancy costs security are charged to asset as incurred. This includes rent and other occupancy costs associated with the physical space.

The Director of Capital Projects and Construction shall notify the Controller's Office when a PPE project is complete and placed in service. The Controller's Office then performs the transactions necessary to move the costs from construction in progress to PPE.

Section 6: Useful Life of Capital Assets

The Controller's Office maintains a list of estimated useful lives for various types of capital assets and is responsible for assigning the appropriate useful life to capital assets.

Section 7: Depreciation of Capital Assets

Depreciation of capital assets shall be calculated and recorded by the Controller's Office using the straight-line method with a half-year convention. All assets purchased and/or placed in service during a fiscal period will receive half year of depreciation in that fiscal period irrespective of the placed in service date.

Leasehold Improvements are depreciated over the shorter of the remaining length of the lease, including options to renew if it is probable that the renewal will occur or the actual life of the asset.

Section 8: Disposal of Capital Assets

Disposal of capital assets, with a value exceeding $50,000, must be approved by the Senior Vice President for Finance and Administration. The Controller's Office shall be notified of the specific asset being disposed, the date of the disposal, and any proceeds resulting from any sale related to the transaction.

Section 9: Evaluation of Repair that might be Capital

Capitalize equipment repairs and/or purchase of parts when the cost is over $10,000 and they *increase the usefulness and efficiency of the equipment*. Apply the "RABI" test as described below.

RABI Test (restoration, adaptation, betterment, improvement)

- Materially increases the quality, capacity, productivity or efficiency
- Adapted for a new purpose
- Restore damage resulting from a casualty event
- Replaces a major component or substantial structural part
- Rebuilt to a "like new" condition
- Corrects a pre-existing defect

Section 10: University Resources

If there are any questions or concerns regarding this policy please use the contact information below as applicable:

Subject	**Contact**	**Phone**
Initiation and approval of capital projects	Budget Office	617-573-8196
Useful lives of capital assets	Controller	617-573-4830
Project management	Director of Capital Projects and Construction	617-573-4842
Disposal of capital assets	Senior Vice President for Finance and Administration	617-573-8400
Interpretation of policy	Controller	617-570-4830