GUIDELINES FOR CAPITALIZATION OF ASSETS

Responsible Official: University Controller
Administering Department: Financial Reporting
Effective Date: July 1, 2024
Revised: June 24, 2024

PROPERTY, PLANT AND EQUIPMENT CAPITALIZATION POLICY

This policy does not apply to fixed assets for Strong Memorial Hospital or University affiliates.

<u>Criteria for Capitalizing Plant and Equipment Acquisitions</u>

This policy outlines in general terms the distinction between capitalized and non-capitalized fixed asset acquisitions. Fixed assets are divided into three categories (property, plant, and equipment). <u>Equipment</u> is categorized as either movable or fixed.

In UR Financials, the University's general ledger system, all fixed assets must 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 to a more appropriate spend category.

<u>Capitalized Expenditures</u>

Property and Plant:

1. Land:
   a. New land acquisitions are capitalized at cost.
   b. Land donated to the University must have a value established by an appraisal. The value is the fair market value as of the date of the donation.

2. Buildings:
   a. Non-research buildings are capitalized as a single asset. Research buildings (as defined by the University's space survey) are componentized.
   b. Building renovations are capitalized if the costs increase square footage of the existing building and/or increase the useful life of the asset.
   c. Building renovations which have a cost of less than $50,000 are expensed as incurred (except for movable equipment with a purchase price of greater than $5,000)

3. Land improvements:
   a. 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, and telephone lines.

b. Projects which involve expenditures of less than $50,000 or less will be expensed as incurred (except for any movable equipment with a purchase cost of greater than $5,000).

4. Leasehold improvements:
    a. This category consists of improvements to leased locations which include renovations, which will extend the life of the leased space and/or increase square footage.
    b. Projects which involve expenditures of less than $50,000 or less will be expensed as incurred (except for any movable equipment with a purchase cost of greater than $5,000).

Examples of costs considered to be capital expenditures include:

a. Demolition costs
b. Cost of building materials
c. Contractor and construction costs
d. Architect and consultant fees
e. Building permit fees
f. Subcontract fees
g. Equipment rented to complete construction
h. Operating and maintenance costs for work performed in building the asset
i. Cost of supplies consumed during construction work

Fixed assets are transferred from construction in progress and depreciation will commence once the construction project cost once the asset has been placed into service for the intended use and/or is occupied, which is verified with the project manager.

Equipment:

1. Movable equipment:
    a. Items of equipment or furnishings that have an acquisition cost of $5,000 or more and a life expectancy of greater than one year are capitalized. The purchase cost includes any modifications, accessories, attachments, and/or software necessary for the equipment's intended purpose.
    b. The following costs are included in the overall movable equipment cost:
        i. Delivery
        ii. Installation
        iii. Initial calibration
    c. Expenditures for the restoration or betterment of equipment are 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 capitalized cost should not exceed the present market value of the item.
    d. Accessories purchased after the first year of an item's acquisition must meet the University's movable equipment capitalization threshold and are capitalized separately.

e. The following costs are expensed as incurred and not included within the overall capitalized cost:
    i. Service contracts
    ii. Warranties
    iii. Excess supplies purchased on the same purchase order as the initial equipment purchase
f. Group or mass purchases (initial complement) of furnishings or related 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.
g. Software purchases processed on a separate purchase order will be capitalized and issued a property tag if the unit cost is $5,000 or more.
h. Equipment gifted to the University must 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.
i. Equipment purchased on finance leases are capitalized regardless of cost. Items with a cost of greater than $5,000 will be depreciated over the length of the lease or the asset's useful life, whichever is less. Equipment that does not meet the University's capitalization threshold are depreciated over a one-year useful life.

2. Fixed equipment:
    a. Fixed equipment has the same capitalization threshold as movable equipment, but cost centers are 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.
    b. Examples of fixed equipment include the following:
        i. biosafety cabinets
        ii. audio visual systems
        iii. cubicle walls
        iv. time clock machines
        v. fume hoods

3. Fabricated equipment
    a. Please see ORPA's (Office of Research Policy and Administration) policy located at https://www.rochester.edu/orpa/_assets/pdf/policy_fabricationPolicy.pdf.

Expenditures that do not meet the University's capitalization threshold:

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 half year of depreciation is taken in the year of acquisition. Estimated useful lives are as follows (excluding research building components):

	Years
New building construction	40
Building and leasehold improvements	20
Land improvements	20
Equipment	4 to 15
Library books	10

Disposition

Movable equipment disposals must be requested within 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 in URSpace. Financial Reporting will contact the cost center directly if the disposal is denied.

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 documentation of the sponsor's permissions to dispose of the property to Financial Reporting.