

## **Boston College Office of the Financial Vice President**

### **Capitalization and Depreciation of Property, Plant, and Equipment**

#### **University Policy Overview**

It is the policy of Boston College (the University) to maintain accurate and complete records of property, plant, and equipment held and to capitalize and depreciate them according to appropriate accounting, tax, and regulatory requirements. Once an asset's cost is capitalized, it will be written off periodically, or depreciated, in a systematic manner over the estimated useful life of the asset.

#### **Purpose**

Establish uniform guidelines for the collection of information necessary to properly capitalize the cost of assets.

Provide for consistent and accurate capitalization of all assets held by Boston College as required for internal, external, and regulatory reporting.

#### **Scope**

For the purposes of this policy the University's, property, plant, and equipment include: land, land improvements, buildings, equipment, and vehicles.

#### **University Policy Detail**

##### **Requirements for Capitalization**

##### **Expenditures at Acquisition:**

In order for expenditures to be considered for capitalization, and thus subject to depreciation, an asset must fulfill two characteristics:

- The asset must be acquired (purchased, constructed, or donated) for use in operations, and not for investment or sale.
- The asset must have a useful life greater than one year.

##### **Expenditures Subsequent to Acquisition**

These expenditures include the cost for renovations, betterments, or improvements that add to the permanent value of the asset, make the asset better than it was when it was purchased, or extend its life beyond the original useful life. To capitalize these costs, the improvements must fulfill at least one of the following criteria:

- The useful life of the asset is increased.
- The productive capacity of the asset is improved.
- The quality of units or services produced from the asset is enhanced.

To properly capitalize the costs associated with an asset, it is necessary to maintain accurate and complete records pertaining to the cost of each asset.

### **Procedures**

Assets within each category that do not meet the threshold for capitalization will be treated as an expense in the year acquired.

### **Responsibility**

The Office of the Controller, Plant Accounting is responsible for writing, updating, and interpreting this policy.

### **Definition and Classification of Capital Costs**

The basis for accounting for property, plant, and equipment is cost on the date of the acquisition or at fair market or appraised value on the date of the donation in the care of gifts. All normal expenditures of readying an asset for its intended use are capitalized. The information below identifies specific capitalizable costs for individual categories of assets.

### **Land and Improvements**

The following costs related to the acquisition of land should be capitalized:

- Purchase price
- Appraisals
- Professional services
- Title insurance
- Title searches
- Broker's fees
- Closing costs

If land is purchased as a building site, certain expenses may also be capitalized:

- Razing and removal
- Land improvements
- Site improvements
- Landscaping associated with new construction

### **Buildings**

The following costs related to the acquisition, construction, or improvement of a building should be capitalized in the fiscal year incurred. See below for definition of building improvements.

Acquisition costs include:

- Purchase price
- Appraisals
- Professional services
- Title insurance
- Title searches
- Broker's fees
- Closing cost

Construction costs include but are not limited to:

- Professional services
- Appraisals
- Test borings
- Site preparation
- Materials
- Labor
- Overhead

### **Tangible Personal Property**

Capitalized costs of tangible personal property are those costs associated with the acquisition or construction of tangible personal property. The property must have a useful life of greater than one year and cost in excess of \$5,000 per individual unit. Tangible personal property includes equipment, furniture, fixtures, and vehicles.

The acquisition costs include:

- Acquisition cost
- Transportation
- Installation
- Duty
- In-transit insurance

In addition to the costs listed above, all costs associated with modifications, attachments, accessories, or auxiliary apparatus necessary to make the property usable for its intended purpose may also be capitalized.

As part of a building acquisition or construction project, costs may be incurred to fit out space with new furnishings and equipment. When such costs are incurred and the aggregate of these costs exceeds \$5,000, and the items have a useful life of greater than one year, the costs may be capitalized even though some of the individual items cost less than \$5,000. However, only allowable capitalizable items (i.e., items having a useful life of greater than one year) may be included in the amount capitalized. Because the useful lives of furnishings and equipment not affixed to the building differ from the useful life of the building, assets and moveable furnishings and equipment (MFE) are accounted for separately from building assets at the close of the construction project.

All moveable equipment valued at \$5,000 or more must have a bar code tag assigned to it in order to identify ownership and to facilitate the physical inventory process. The bar code tag is a unique number that allows Plant Accounting to track the moveable equipment and to update the University's inventory records. Bar code tags must be affixed to all moveable capital equipment.

### **Software**

All costs related to the external purchase of software applications with a useful life greater than one year may be capitalized. Fees paid for training, conversion costs and software maintenance may not be capitalized and must be expensed. The external costs of upgrades and enhancements that enable

the software to perform tasks that it was previously incapable of performing may be capitalized; otherwise such costs are not capitalizable and must be expensed.

Software developed for internal use includes software that is developed or modified solely to meet the University's internal needs and where no substantive plan exists or is being developed to market the software externally. If the software relates to research and development, it is not capitalizable and must be expensed if at the conclusion of the research it has no alternative use. Otherwise, costs related to internally-developed software are capitalized or expensed based on the following:

Costs in the preliminary stages of development, including conceptualization, evaluation of alternatives, and assessment of technology to support performance are not capitalizable and must be expensed.

In the application development stage:

- (a) Where the aggregate costs will exceed \$5,000, capitalizable cost include external direct costs of materials and services used to develop internal-use computer software, payroll and fringe benefits costs for employees who are directly associated with and who devote time to the internal-use computer software project—to the extent of the time spent directly on the project - on such tasks as coding and testing during the application development stage, interest costs incurred while developing internal-use computer software, and costs of upgrades and enhancements that result in additional functionality.
- (b) Costs to be expensed include costs incurred for data conversion from old to new systems, including purging or cleansing existing data, and reconciliation or balancing old data to data in the new system, all training and maintenance costs, and general and administrative costs and overhead costs incurred during the project. If it is not possible to separate the costs of maintenance from relatively minor upgrades and enhancements, all costs should be expensed as incurred.

Software site licenses may only be capitalized if they qualify for capitalization. Site licenses that are paid for immediately from operating funds will be expensed. To qualify for capitalization, a site license must be for a minimum of two years, cost in excess of \$5,000, and may not include such items as provisions for maintenance, help desk support, or training.

### **Leasehold Improvements**

The capitalized costs of leasehold improvements are all costs which meet the capitalization criteria associated with structural alterations, renovation, or improvements made by the University to leased real property.

### **Donated Assets**

Donated property, plant, or equipment that meet the requirements for capitalization and that will be used in operations, will be capitalized at the fair market or appraised value on the date of donation.

### **Interest Costs Incurred During Construction**

The capitalized costs of interest during construction for debt-financed projects are the costs of interest, net of corresponding income, related to the acquisition or construction of an asset. The interest costs can be capitalized during the period of time that is required to complete and prepare the asset for its intended use. Capitalized interest costs are included in the value of the related asset.

## **Building Improvements**

Building improvements are significant alterations, renovations, or structural changes that increase the usefulness of the asset, enhance its efficiency, or prolong its useful life by greater than one year. Building improvements may include interior or exterior construction of a building or building systems, such as electrical or plumbing systems. They may also include the completion of interior or exterior appointments or finishes, so long as they are done as part of a significant alteration or renovation.

Categories of Building Improvements Include:

**Alterations:** A change in the internal arrangement or other physical characteristics of an existing asset so that it may be effectively used for a newly designated purpose.

**Example:** Changing classroom space into office space

**Renovations:** The total or partial upgrading of a facility to higher standards of quality or efficiency than originally existed.

**Example:** The transition of an old research laboratory into one with state-of-the-art equipment, lighting, or other subsystems

**Betterment, Renewal, Replacement:** The overhaul or replacement of major constituent parts that have deteriorated because of the elements or usage. The deterioration has not been corrected through ongoing or required maintenance. **Example:** Replacement of old or broken windows with a new thermal variety.

## **Non-Capitalizable Expenses**

Costs that neither significantly add to the permanent value of a property nor prolong its intended useful life are expensed. The following types of plant costs are expensed:

**Maintenance:** The costs associated with recurring work required to preserve or immediately restore a facility to such condition that it can be effectively used for its designed purpose. Maintenance includes work done to prevent damage to a facility. **Example:** Custodial services; repainting a room; fixing a leaky faucet.

## **Costs Below**

**Capitalization Thresholds:** Items that do not meet the monetary thresholds should be expensed in the period incurred.

## **Library Books**

Library books are a subset of capital assets that the university records as long-lived assets, although the market value of an individual item is generally below the capital threshold. The category consists of bound periodicals, books, journals and microfilms purchased for and catalogued in libraries that are part of the university library system.

## **Rare Book and Art collections**

Special collections are a subset of capital assets. The university records its collections as long-lived assets. These items are recorded as capital assets regardless of cost.

## Asset Depreciation Methods

With the exception of land and rare book and art collections, all capitalized assets are depreciated using the straight-line method over the expected useful life of the individual assets. An asset's life is the period of time over which services are expected to be rendered by the asset. The calculation of depreciation is based on historical cost (capitalized costs).

## Depreciation Expense

Depreciation of capitalized assets commence in the year the individual asset is placed into service or use.

The estimated useful life for the University's various asset categories are as follows:

### ASSET TYPE AND USEFUL LIVES

ASSET	USEFUL LIVES
Land	Not applicable
Land Improvements	20 years
Buildings	25 - 60 years
Equipment	2 - 15 years
Library Books	50 years
Rare Book & Art Collections	Not applicable

Building Assets and Land Improvement Assets:

Annual Projects:

A full year's depreciation is recorded in the year the asset is placed in service or use. The annual depreciation expense is charged in the general ledger and allocated to the appropriate functional expense categories based on square footage calculations.

Except where componentized depreciation is utilized for major construction projects, annual renewal and renovation construction projects will be treated as a single asset and depreciated over the remaining useful life of the building assigned.

Major Construction Projects:

Depreciation will commence and be recorded at the time the building is considered completed, ready for its intended use and is occupied. Depreciation is calculated on a componentized basis for the building structure, building services, and fixed equipment. The annual depreciation expense is charged in the general ledger and allocated to the appropriate functional expense categories based on square footage calculations.

**Capital Equipment and Vehicle Assets:**

Depreciation is calculated utilizing a half year convention. In the year in which the individual asset is placed in service or use one half of the calculated annual depreciation expense is charged in the general ledger and allocated to the appropriate functional expense categories based upon the department to which the asset is assigned.

