**Financial Management of Property, Plant and Equipment - Appendix B**

**Detailed Guidance on Capitalizing vs. Expensing Expenditures**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| **Basic rules for how and when to record capital items:** To qualify for capitalization, an expenditure must meet **all three** of the below criteria. If the item does not meet all of these criteria, the amount must be expensed in the year incurred (i.e., when goods are received by or services are provided to the University).1. The item must be acquired for use in operations, and not for investment or sale.
2. The item must have a useful life of one year or more.
3. The amount must meet the following materiality thresholds:

|  |  |
| --- | --- |
| **Category** | **Threshold for Capitalization** |
| Land  | N/A – all land is capitalized |
| Land improvements | $100,000 (in total project costs) |
| Buildings | $100,000 (in total project costs) |
| Building improvements | $100,000 (in total project costs) |
| Leasehold improvements | $100,000 (in total project costs) |
| Moveable furnishings and equipment (MFE) | $5,000 |
| Other equipment, vehicles, software, etc. | $5,000 |

Recording an amount as an asset requires a debit to the appropriate asset object code. The following are the object code ranges for facilities and equipment assets.**Asset Object Codes:**

|  |  |
| --- | --- |
| **Description** | **Object Code Range** |
| General equipment | 1000-1029\* |
| Computer equipment | 1030-1059\* |
| Residential furnishing + fixtures | 1060-1089\* |
| Office furnishings + fixtures | 1090-1119\* |
| Vehicles | 1120-1139\* |
| Work in progress | 1140-1169\* |
| Buildings (including improvements) | 1200-1219 |
| Land (including improvements) | 1230-1239 |
| Capital leasehold improvements | 1240-1249 |
| CIP-facilities construction | 1250-1399 |
| CIP-land + buildings | 1400-1409 |
| CIP-moveable furnishings + equipment | 1410-1419 |
| CIP-other costs | 1420-1588 |
| CIP-Interest | 1590-1599 |

\*Equipment, furnishing and vehicle purchases (those that are not debt-financed and not part of a construction project) are initially recorded through the expense object code range 6800-6869, “Equipment, Furniture + Fixtures>=$5000”. The transaction is subsequently reclassified at the tub level to the appropriate asset object code via a weekly Mass Additions process. Once the Mass Additions process is completed, the Create Accounting process is run to create journal entries that will record the asset costs on the balance sheet. This journal entry results in the reclassification of the costs using a special contra-fund. The equipment expenditure remains recorded in the original fund that was charged. **Expense Object Codes:**

|  |  |
| --- | --- |
| **Description** | **Object Code** |
| Noncomputer Equip, Non-Sponsored^Equip >=$5000 | 6801 |
| Noncomputer Equip, Sponsored^Equip >=$5000 | 6802 |
| Computer, Non-Sponsored^Equip >=$5000 | 6803 |
| Computer, Sponsored^Equip >=$5000 | 6804 |
| Residential Furn+Fixtures, Non-Sponsored^Equip >=$5000 | 6805 |
| Residential Furn+Fixtures, Sponsored^Equip >=$5000 | 6806 |
| Office Furn+Fixtures, Non-Sponsored^Equip >=$5000 | 6807 |
| Office Furn+Fixtures, Sponsored^Equip >=$5000 | 6808 |
| Vehicle, Non-Sponsored^Equip >=$5000 | 6809 |
| Vehicle, Sponsored^Equip >=$5000 | 6810 |
| Non-Sponsored Work in Progress^Equip >=$5000 | 6811 |
| Sponsored Work in Progress^Equip >=$5000 | 6812 |
| Scientific Equipment, Non-Sponsored^Equip >=$5000 | 6813 |
| Scientific Equipment, Sponsored^Equip >=$5000 | 6814 |
| Software, Non-Sponsored^Equip >=$5000 | 6815 |
| Software, Sponsored ^Equip >=$5000 | 6816 |

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It is important to note that the $5,000 threshold, specified in the expense object code range 6800-6869, is for individual equipment, furnishings or vehicle purchases that cost $5,000 or more. For individual items (that are no part of multi-component equipment) costing less than $5,000, even if the total purchase (invoice) exceeds $5,000, a separate set of object codes ranging from 6710-6789 must be used to capture these expenses. These transactions will not be reclassified to the balance sheet, but will be expensed as incurred.

Component parts of one piece of equipment (e.g., a CPU, computer monitor, keyboard, mouse, etc.) must be accumulated and capitalized if, in total, the cost is greater than $5,000.

**Plant and equipment equity accounting**

The University maintains separate sets of accounts that hold the assets, liabilities and net assets related to plant (facilities) and equipment. Plant/equipment assets minus plant/equipment liabilities must equal plant/equipment net assets; this ensures that all investments in plant/equipment are either debt financed or funded. FAR verifies each month that these accounts are in balance. Plant/equipment net assets are also collectively referred to as “plant/equipment equity.” As assets are acquired, they are debited to the plant and equipment asset object codes. Plant liabilities and/or net assets related to these plant assets must then be credited, so that the set of accounts remains in balance.

Where an asset acquisition is funded from net assets (i.e., not debt-financed), a transfer must be recorded charging a tub’s operating funds and crediting the tub’s plant/equipment net assets. This entry is recorded monthly via a mass allocation process.

For items that are debt-financed, plant/equipment debt equivalent to the plant/equipment assets is recorded on the tub’s balance sheet. As the debt principal is repaid throughout the life of the loan, an equivalent amount is transferred from the tub’s operating funds to the tub’s plant/equipment equity. Where debt is used to fund an asset acquisition, the Office of Treasury Management (OTM) records the appropriate funding entries. An example of a debt-financed purchase is presented in *Appendix E, Detailed Guidance on Funding Procedures*.

As assets are depreciated, the charge for depreciation expense is recorded in the plant/equipment set of accounts as a charge to plant/equipment equity, with an offsetting credit to accumulated depreciation.

**What costs to capitalize versus expense**

When acquiring land, land improvements, buildings or equipment, all significant expenditures that are necessary to obtain and prepare the asset for its intended use are generally capitalized. The capitalization guidelines differ for each type of asset.

LAND

The following expenditures may be capitalized to the cost of land:

* The original acquisition price
* Commissions related to the acquisition
* Legal fees related to the acquisition
* Costs of surveys
* Costs of removing unwanted buildings that were present prior to the purchase from the land, less any proceeds from salvage
* Costs of permanent improvements (e.g., replacing contaminated soil)

A listing of typical costs associated with the purchase of land and their capitalization versus expense treatment are presented in the charts that follow.

LAND IMPROVEMENTS

Expenditures for land improvements that have limited lives are capitalized separately from the land and depreciated over their expected useful lives.

The following expenditures may be capitalized as land improvements if total project costs are greater than $100,000:

* Private driveways
* Sidewalks
* Fences
* Parking lots
* Rights-of-way access or easements
* Lighting
* Sewer systems
* Landscaping

A listing of typical costs associated with land improvements and their capitalization versus expense treatment is presented in the charts starting on page 7.

BUILDINGS

If acquired by purchase

In general, all costs associated with readying an asset for use may be capitalized. These costs must be specifically attributable to the purchase. Incidental costs (i.e., those not critical to preparing the asset for use) are expensed as incurred.

For larger acquisitions, considerable “pre-acquisition” costs are common and may also be capitalized as long as the building is ultimately purchased. These are typically recorded as prepaid expenses to object code 0540, “Prepaid + Accrued items” and include:

* Legal fees
* Environmental studies (excludes remediation costs)
* Transportation studies
* Due diligence costs
* Real estate commissions

Once the acquisition is completed, any amounts previously recorded as prepaid expenses are transferred to the appropriate plant or Construction in Progress (CIP) account by crediting prepaid expense and debiting the appropriate plant or CIP object code.

For pre-acquisition costs to be capitalized, the acquisition must be completed. For example, where pre-acquisition legal fees are incurred and environmental studies are performed but the building in question is ultimately not purchased, the legal fees and environmental costs must be expensed.

In cases where land and a building are purchased together for one price, an allocation is required to appropriately split the cost between the two assets. This allocation is made using appraisal values at the time of purchase.

A listing of typical costs associated with purchases of buildings and their capitalization versus expense treatment is presented in the charts starting on page 9.

If acquired by construction

Constructed buildings can include a broader range of capitalizable costs than purchased buildings. These costs may include such items as salaries for project managers, overhead and interest charges. A listing of typical costs incurred to construct a building and their capitalization versus expense treatment is presented in the charts that follow.

In cases where land and a building are purchased with the intent to *immediately* remove (i.e., within one year) the building to prepare the land for construction of a new building, the cost of the building is capitalized to the land, rather than as part of the cost of the new building. The cost of removal is also capitalized to the land.

The cost of removing an existing building that was not intended to be removed upon purchase and that has been in use for some time (i.e., more than one year) is treated as an adjustment to the gain or loss on disposal of that building, and not as part of the costs capitalized with the newly constructed building.

It is important to distinguish between the cost of the building and the costs of other assets, such as movable furnishings and equipment (MFEs). MFE costs are treated as separate assets and depreciated over their expected useful lives. MFEs are discussed further in the “Equipment if acquired by construction” section of this document.

BUILDING IMPROVEMENTS

To qualify for capitalization, building improvement expenditures must exceed $100,000 (excluding MFE costs) in total and represent significant alterations, renovations or structural changes that increase the usefulness of the asset, enhance its efficiency or prolong its useful life by more than one year.

Capitalizable building improvements may include interior or exterior renovation of a building, or upgrading of building systems such as electrical wiring or plumbing. They may also include the completion of interior or exterior finishes, so long as they represent a significant alteration or renovation.

There are three broad categories of renovation that may be capitalized:

* Alterations – changes to the internal structural arrangement or other physical characteristics of an existing asset so that it may be effectively used for a newly designated purpose. Examples of alterations include:
	+ Adding a lunch area, rest rooms, offices or a new wing to an existing building
	+ Changing classroom space into office space
	+ Converting three offices into one office
	+ Installing new wiring, heating, painting and improvements to prepare the property for new use by a tenant
* Renovations – the total or partial upgrading of a facility to higher standards of quality or efficiency. Examples of renovations include:
	+ Conforming a building or area to municipal building code or government regulations
	+ Replacing a sheet metal roof with a copper roof
	+ Transitioning an old research laboratory into a state-of-the-art facility, with new fixed equipment, lighting or other subsystems
* Betterments, renewals and replacements – the overhaul or replacement of major constituent parts that have deteriorated because of time or usage, where the deterioration has not been corrected through ongoing or required maintenance and now requires a major overhaul. These projects can involve fixed equipment, which is different from moveable furniture and equipment (MFE). Fixed equipment is defined as equipment that is bolted to and part of the operations of a building (i.e., elevators, coolers, boilers, etc.) In research buildings, fixed equipment is tracked as a separate component. Examples of betterments, renewals and replacements include:
	+ Installing a new floor
	+ Replacing old or broken windows as part of a larger renovation project
	+ Replacing electrical, plumbing, heating or air conditioning systems
	+ Resurfacing an entire roof (even if it is replaced with the same type of material that previously existed)

In contrast to the three broad improvement categories that qualify as capital expenditures, there are two major types of expenditures that DO NOT qualify as capital in nature and are to be expensed in the year incurred:

* Repairs and maintenance – costs associated with recurring work required to preserve or immediately restore a facility to such condition that it can be effectively used for its designated purpose (i.e., not a new purpose). Examples of repairs and maintenance work include:
	+ Repairs made to prevent damage to a facility
	+ Custodial services
	+ A leaky faucet repair
	+ Replacement of minor parts
	+ Replacement of a worn-out rug
	+ Redecoration or remodeling without a change in purpose and not associated with a larger renovation project
	+ Repainting or wallpapering
	+ Installation of wall-to-wall carpeting

Note that in practice, invoices for repair and maintenance projects sometimes include equipment-type assets that, on their own, would qualify for capitalization. Tubs have the option to either capitalize or expense equipment assets included in repair and maintenance projects, even if the equipment cost is over the $5,000 capitalization threshold.

* Preservation and restoration – costs associated with maintaining *special* *assets* (e.g., works of art) or returning them to a level of quality as close to their original state as possible. Examples of preservation and restoration include:
* Returning a stained glass window to its former level of beauty or acting to prevent further deterioration
* Cleaning a painting

Harvard does not capitalize its collections, and as such, related preservation and restoration costs are expensed as incurred. For more information on collections accounting, contact the Associate Director for Accounting Operations.

CAPITAL LEASES

Capital leases require special handling as FAR will need to create a placeholder asset and corresponding lease obligation on behalf of the School/Tub. See the [Lease Accounting Policy](http://policies.fad.harvard.edu/accounting-leases) for more information.

LEASEHOLD IMPROVEMENTS (LHIs)

The same procedures for determining whether renovations can be capitalized or expensed apply to improvements made by a University department to property not owned by that department. Generally, improvements made to leased premises are capitalized if they meet these criteria and qualify as alterations, renovations, betterments, renewals or replacements.

EQUIPMENT

If acquired by purchase

Equipment purchases include items such as machinery, equipment, furniture and fixtures. Additionally, costs that are required to ready the asset for its intended use are capitalizable. Such costs include:

* The original purchase price (for individual items >= $5,000)
* Freight, insurance, handling, storage and other costs specifically related to acquiring the asset
* Costs of installation, including site preparation, assembly and installation
* Costs of trial runs and other tests required before the asset can be fully operational
* Costs of reconditioning an asset purchased in a used state
* Modifications, attachments, accessories or auxiliary apparatus that are necessary to make the item usable for its intended purpose.
* Upgrades or enhancements that increase the equipment’s useful life by one year or more

By contrast, the following are not capitalizable: repair and maintenance costs, separate warranty or maintenance contracts, demolishing or dismantling costs, spare or replacement parts.

If acquired by construction as part of a building

MFE costs that are part of a larger building construction project are treated separately from the building itself and depreciated according to their expected useful lives, which are typically less than the useful life of the building itself. These costs must be recorded within the CIP range of object codes for MFE (1410-1419). At the project’s close, MFE costs will be placed into service by crediting object code 1621 and debiting the equipment/furnishings asset classes that correspond to the CIP object codes to which they were originally charged.

If acquired by fabrication(or Equipment Work in Progress (“WIP”)

Definition: a fabrication is equipment that is constructed or developed by combining parts or materials into one identifiable unit. To be considered a fabrication:

* All component parts must work together as one unit;
* The aggregate cost of all parts in the completed unit must meet the $5,000 capital equipment threshold; and
* The completed fabrication has a useful life of one year or more.

For additional information about fabrications funded by sponsored awards, see Appendix A.

When to place in service

When an equipment project is sufficiently developed and is available for use or is producing science, it must be placed in service (“PIS”). WIP is placed into service by FAR for non-debt financed fabrication and OTM for debt financed fabrication. The tub must complete the “Notification of Completion of Capital Equipment Fabrication or Debt-Financed Purchase” form. This form is available online at: *“*[*Notification of Completion of Capital Equipment Fabrication*](http://vpf-web.harvard.edu/ofs/fa/FORM-PIS%20notification_DA_070907.doc)*”*. The form is submitted to OTM if the project is debt financed or to FAR if internally-funded. Once OTM or FAR receives the notification form, their office will process the change in Fixed Assets that will credit the WIP object code and debit the appropriate asset object code.

Costs may not be capitalized indefinitely. A sponsored fabrication’s construction period is generally set by the scope of the sponsored project, however, tubs should review the status of all in-progress fabrications at least every 6 months. Projects that haven’t incurred charges after 6 months should be reviewed and placed into service or written off if they are impaired and will not be utilized. Exceptions should be carefully reviewed, but if there is a compelling reason to extend the WIP period, please notify FAR for review.

Adding additional expenses to a completed fabrication
After a fabrication has been placed in service any additional costs incurred are considered repairs and maintenance and must be expensed as incurred. In some instances, additional costs represent an upgrade and may be capitalized as such. For costs to be considered a fabrication upgrade, they must increase the useful life by one year or more and add new or additional functionality to the existing fabrication. The installation of fabrication replacement parts or repairs are not considered upgrades.

Fabrication modification/subsequent projects
After a fabrication has been placed in service, any additional modification or subsequent related project that meet that capitalization criteria should be treated as a separate asset and assigned its own tag number and useful life. The modification or subsequent project’s tag number should be associated with the original fabrication.

Object codes: Constructed equipment costs that are not part of a larger building construction project but that are distinct projects are recorded initially through either expense object code 6811, “Non-Sponsored Work in Progress^Equipment >= $5000”, or object code 6812, “Sponsored Work in Progress^Equipment >= $5000.” Debt-financed equipment WIP expenditures are charged directly to the balance sheet using object code 1140, “Equipment, Debt-financed, WIP.” On a weekly basis, items charged to object codes 6811 and 6812 are reclassified to object codes 1150, "Equip WIP, Non-sponsored" and 1151, "Equip WIP, Sponsored," respectively, via the fixed asset subledger accounting (SLA). This reclassification adjustment is recorded through a special contra-fund. As a result, the equipment expenditure remains recorded in the original fund that was charged.

Service Center assets

Academic Service Centers are units within Harvard departments or centers that charge for goods or services that directly support the research or academic mission of the University and recover costs through charges to internal and external users. All Academic Service Centers are expected to recover no more than the aggregate costs of their operations through charges to users. As such, equipment purchased for use in service centers may have a useful life that is longer or shorter than the default useful life of the equipment category used. Oracle Fixed Assets uses subcategories for these service center assets, allowing users to adjust the useful life to one that more closely matches the duration the equipment will be utilized in a service center.

For more information on Academic Service Centers, see the OSP policy: <http://osp.fad.harvard.edu/content/service-centers>. For a list of available service center subcategories and useful lives, see Appendix C “Detailed Guidance on Depreciating Facilities and Equipment”.

OTHER ACQUISITION TYPES

New faculty transfers – When a new faculty member arrives with equipment, the equipment must be treated accordingly. If ownership/title of the equipment remains with either the faculty member or original purchasing institution, no accounting entries are required. However, local policy may dictate that the equipment be recorded in Oracle Fixed Assets at zero cost in order to track the equipment. If ownership/title of the equipment is transferred to the University, appropriate accounting entries are required. If payment is made to the original purchasing institution, the assets will automatically be captured through the Accounts Payable process. If title is transferred without payment, the acquiring tub will need to manually record the equipment in Oracle Fixed Assets and record a corresponding entry to account for the value of the donated assets.

Assets provided by the Federal Government – When a federal agency provides a tub with equipment, the agency retains title to the asset. However, the University is still obligated to track this asset. Tubs receiving these types of assets are required to enter the assets into Oracle Fixed Assets as a fully expensed item (zero net book value) so that it can be tracked and inventoried.

SOFTWARE

Software that is purchased (i.e., not internally developed) follows the same procedures as outlined for equipment purchases. For customized software, consulting and implementation costs may be capitalizable. Capitalization of software licenses may only occur if the license has a useful life of more than one year, which is consistent with the capitalization criteria set out in the “Basic rules for how and when to record capital items” section of this document.

OTHER ITEMS THAT REQUIRE SPECIAL CONSIDERATION

Accounting for fully depreciated assets

Assets that remain in use, regardless of net book value, should remain in Oracle Fixed Assets. Assets that are fully depreciated (the net book value of the asset less accumulated depreciation is zero) and no longer in use and or are obsolete, must be written off in Oracle Fixed Assets. This is performed by the fixed asset manager at the Tub level.

Placed in Service Date

For purchased equipment assets, the placed in service date defaults to the invoice date contained in the AP feed that populates the Oracle Asset Workbench. For fabricated equipment assets, the placed in service date should be the date the asset is sufficiently developed or is producing science. This date is also used to begin depreciation. In some cases, local asset managers will have a need to change the placed in service date to a different date. (For example, a new piece of equipment is being installed and additional parts are being added. It takes 3 months to get the equipment ready for service.) In these cases, it will be the Tub’s fixed asset manager or financial manager responsibility to manually adjust the placed in service date.

For constructed assets, the placed in service date is the date the certificate of occupancy was issued. If no certificate is needed, the placed in service date will be the date of the close request. This date should not be changed.

Research & Development Costs

Generally Accepted Accounting Principles (GAAP) require research and development costs be expensed as incurred. ASC 730-10-20 defines research and development costs as follows:

Research is planned search or critical investigation aimed at discovery of new knowledge with the hope that such knowledge will be useful in developing a new product or service (referred to as product) or a new process or technique (referred to as process) or in bringing about a significant improvement to an existing product or process.

Development is the translation of research findings or other knowledge into a plan or design for a new product or process or for a significant improvement to an existing product or process whether intended for sale or use. It includes the conceptual formulation, design, and testing of product alternatives, construction of prototypes, and operation of pilot plants.

Substantially completed assets

Substantially completed projects are those where the facilities are in use and major construction has been completed. When construction projects are substantially completed, the assets are transferred from CIP to PIS. At this point, depreciation begins, and for debt-financed projects, debt repayment begins and capitalization of interest ends.

Once the project is placed in service and fully closed, any remaining costs are expensed as incurred, the CIP activity is closed, and no additional spending may be charged to the project.

Research Facilities

Research facilities must be componentized, meaning asset components are grouped and depreciated in separate categories with differing useful lives. Such components include the shell, roof, finishes, fixed equipment and services. Depreciation methods and corresponding useful lives are discussed in Appendix C of this policy.

Environmental Remediation Costs

Capital projects can give rise to environmental remediation expenses. Depending on the nature of the costs, the type of project (renovation vs. acquisition) and other factors, these costs may be capitalizable. It is important to engage the Environmental Health Safety and Emergency Management department, along with Campus Services and FAR prior to commencing any project with environmental remediation costs.

Capitalization of interest

Interest incurred on funds borrowed to finance construction projects is capitalized to those projects. Interest is charged over the life of the project and continues until the project is complete and the assets are placed in service. Once placed in service, the capitalized interest is allocated to the various types of assets and depreciated over the assets’ expected useful lives. Any interest incurred after the assets are placed in service is expensed.

In the case of under-funded capital projects (those in which the spending has exceeded the funding), interest is again charged to the project and capitalized to the underlying constructed assets.

Conversely, in the case of funded CIP, where current funding exceeds CIP costs to date, interest is earned and credited to the project’s activity through object code 4530, “Interest Income, GOA, Tub Net Asset, GENERAL.” When the project is complete and ready to be placed in service, any earned interest is treated first as a funding source of the project and credited to CIP equity. Any over-funded amounts are returned to the original funding source (e.g., a gift fund, unrestricted designated fund, etc.).

**Capitalization versus expense guidelines - item acquired by purchase**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **AT PURCHASE** | **Land****(all amounts)** | **CAPITALIZE****Building (and improvements) (if total project****costs >= $100,000)** | **Moveable Furnishings +****Equipment (if >= $5,000)** |  | **ALWAYS EXPENSE** |
| Accounting fees | **X** | **X** |  |  |  |
| Application fees (e.g., permits, etc.) | **X** | **X** |  |  |  |
| Appraisals | **X** | **X** |  |  |  |
| Broker's fees or other purchase commissions | **X** | **X** |  |  |  |
| Closing costs (other than real estate taxes or interest) | **X** | **X** |  |  |  |
| Engineering services | **X** | **X** |  |  |  |
| Feasibility studies that lead to asset purchase | **X** | **X** |  |  |  |
| Finder's fees | **X** | **X** |  |  |  |
| Fixed (NOT moveable) equipment and furnishings |  | **X** |  |  |  |
| Inspection costs | **X** | **X** |  |  |  |
| Installation fees (i.e., costs to install equipment) |  |  | **X** |  |  |
| Interest expense |  |  |  |  | **X** |
| Legal and consulting fees | **X** | **X** |  |  |  |
| Moving and relocation: moving people, equipment or utilities/infrastructure in or out of building |  |  |  |  | **X** |
| Other professional services related directly to the purchase | **X** | **X** |  |  |  |
| Purchase price | **X** | **X** | **X** |  |  |
| Real estate taxes |  |  |  |  | **X** |
| Recording fees (e.g., title/ownership registration, etc.) | **X** | **X** |  |  |  |
| Title insurance | **X** | **X** |  |  |  |
| Title searches | **X** | **X** |  |  |  |

**Capitalization versus expense guidelines - item acquired by construction**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Land****(all amounts)** | **CAPITALIZE****Land Building (and Improvements improvements) (if total project (if total project****costs >= $100,000) costs >= $100,000)** | **Moveable Furnishings +****Equipment (if >= $5,000)** |  | **ALWAYS EXPENSE** |
| Accounting fees | **X** |  | **X** |  |  |  |
| Alterations – changes in the internal structural arrangement or other physical characteristics of an existing asset so that it may be effectively used for a newly designated purpose (e.g., adding a new wing or offices, changing office space into classroom space, converting three offices into one office, fitting out space for a new tenant, etc.) |  |  | **X** | **X** |  |  |
| Appraisals | **X** |  | **X** |  |  |  |
| Architectural services |  | **X** | **X** |  |  |  |
| Asbestos removal where asbestos was present at acquisition/construction |  |  | **X** |  |  |  |
| Bed tax |  |  |  |  |  | **X** |
| Built-in bookshelves or other built-in furnishings |  |  | **X** |  |  |  |
| CAPS fee |  | **X** | **X** |  |  |  |
| Clearing, grading and filling where site was purchased for the purpose of constructing a building | **X** | **X** |  |  |  |  |
| Compensation costs of employees whose services are used in the construction |  | **X** | **X** |  |  |  |
| Construction supervision fees |  | **X** | **X** |  |  |  |
| Dedication expenses |  |  |  |  |  | **X** |
| Demolition/removal of old buildings or structures where building construction was not anticipated at the time of land acquisition |  |  |  |  |  | **X** |
| Demolition/removal of old buildings or structures where site was purchased with the intent of constructing a new building | **X** | **X** |  |  |  |  |
| Design costs |  | **X** | **X** |  |  |  |
| Easements or rights-of-way access |  | **X** | **X** |  |  |  |
| Engineering fees |  | **X** | **X** |  |  |  |
| Environmental clean up costs, where the asset has been in use for some time |  |  |  |  |  | **X** |
| Environmental clean up costs, at time of acquisition | **X** |  |  |  |  |  |
| Feasibility studies that lead to construction |  | **X** | **X** |  |  |  |
| Fences (new or replacement) |  | **X** |  |  |  |  |
| Fixed (NOT moveable) equipment and furnishings |  | **X** | **X** |  |  |  |
| HVAC |  |  | **X** |  |  |  |
| Infrastructure fee |  |  |  |  |  | **X** |
| Insurance costs during construction period |  | **X** | **X** |  |  |  |
| Insurance costs NOT during construction period |  |  |  |  |  | **X** |
| Interest expense during construction period |  | **X** | **X** | **X** |  |  |
| Interest expense NOT during construction period |  |  |  |  |  | **X** |
| Land development fees | **X** |  |  |  |  |  |
| Landscaping | **X** | **X** |  |  |  |  |
| Legal + consulting fees related to the construction |  | **X** | **X** |  |  |  |
| Litigation - claims against subcontractor |  |  |  |  |  | **X** |
| Lost rental revenue |  |  |  |  |  | **X** |
| Maintenance and repair (e.g., custodial services, fixing a leaky faucet, replacement of minor parts, replacing a worn out rug, etc.) |  |  |  |  |  | **X** |
| Maintenance of existing sidewalks, fences or pavement |  |  |  |  |  | **X** |
| Materials related directly to construction |  | **X** | **X** | **X** |  |  |
| Mitigation costs |  |  |  |  |  | **X** |
| Moving and relocation: moving people, equipment or utilities/infrastructure in or out of building |  |  |  |  |  | **X** |
| North Yard fee |  |  |  |  |  | **X** |
| Overhead attributable to the project |  | **X** | **X** |  |  |  |
| Pavements (new or replacement) |  | **X** |  |  |  |  |
| Professional fees directly related to construction |  | **X** | **X** |  |  |  |
|  |  |  |  |  |  |  |

**Capitalization versus expense guidelines - item acquired by construction**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Land****(all amounts)** | **CAPITALIZE****Land Building (and Improvements improvements) (if total project (if total project****costs >= $100,000) costs >= $100,000)** | **Moveable Furnishings +****Equipment (if >= $5,000)** |  | **ALWAYS EXPENSE** |
| Redecorating (e.g., repainting or wallpapering, installing wall-to-wall carpeting) |  |  |  | **X** |  |  |
| Renovations - the total or partial upgrading of a facility to higher standard of quality or efficiency than originally existed (e.g., conforming building to municipal code or government regulations; new/better outdoor lighting to conform to safety regulations, transitioning old classroom into one with state-of-the- art lighting and computer hook-ups, etc.) |  | **X** | **X** |  |  |  |
| Rent for swing space - rental expense for additional space due to construction displacement |  |  |  |  |  | **X** |
| Rent credits - reduction in the rent charged to tenants as construction mitigation, typically a reduction in rent revenue |  |  |  |  |  | **X** |
| Replacements, renewals, betterments - overhaul or replacement of major constituent parts that have not been maintained and have deteriorated to the point that now requires a major overhaul (e.g., installing a new floor; resurfacing an entire roof; replacing electrical, plumbing, heating or air conditioning systems; replacing in ground lighting; replacing a deteriorated wall, etc.) |  | **X** | **X** |  |  |  |
| Sidewalks (new or replacement) |  | **X** |  |  |  |  |
| Soil refinement where soil was contaminated at acquisition | **X** |  |  |  |  |  |
| Soil refinement where soil was NOT contaminated at acquisition |  |  |  |  |  | **X** |
| Special assessments directly related to the property and mandated by local governing bodies | **X** |  |  |  |  |  |
| Surveys |  | **X** | **X** |  |  |  |
| Teledata closet (i.e., an area that houses data lines, switching equipment, etc.) |  |  | **X** |  |  |  |
| Teledata equipment |  |  |  | **X** |  |  |
| Temporary structures (e.g., ramps, loading docks, etc.) necessary for construction |  | **X** | **X** |  |  |  |
| Test borings (soil and land assessments) |  | **X** | **X** |  |  |  |
| Transportation Access Plan Agreement payments | **X** |  |  |  |  |  |
| Utility fees during the construction period |  |  | **X** |  |  |  |
| Utility fees NOT during the construction period |  |  |  |  |  | **X** |