

Prepared by Property and Fund Management Office
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A8.552

A8.550 CAPITALIZATION

May 2003

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A8.552 Real Property

1. Definitions

Land - Land includes the direct cost of acquisition, legal fees, site preparation costs including the cost of demolishing unwanted structures on the land.

Land Improvements - Betterments, other than buildings or infrastructure, that ready the land for its intended use. Examples of land improvement include site improvement such as excavation, fill, grading, and utility installation; removal, relocation, or reconstruction of property of others, such as railroads and telephone and powerlines; retaining walls; parking lots; fencing; and landscaping.

Infrastructure Assets - Long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems, and dams.

Building - A building in a restrictive sense will consist of the building structure or shell, foundations, framing, floors, walls, roofs, interior and exterior finish, doors, windows and hardware. In addition, the building includes attachments to buildings, such as wiring, electrical fixtures, heating systems, air conditioning systems, plumbing systems, boilers, etc.

Fixed Equipment - Equipment which is attached to a building but would not require an extraordinary expenditure to remove. It includes furniture and equipment affixed to the building that serves the function of the institution, such as built-in benches, cabinets, counters, tables, lockers, dietary equipment, conveying equipment, fume hoods, refrigeration machinery and piping, built-in shelving, autoclaves, sterilizers, washers, dormant scales, paging systems, clock systems, and similar fixed furniture and equipment.

2. Guidelines

a. All building and land improvement acquisitions with an

acquisition cost of \$5,000 or more shall be capitalized as individual asset accountability units (AAU).

- b. The AAU for land shall be cost. The AAU for land shall consist of the purchase price and all other fees and costs necessary to prepare the land for its normal and intended purpose.
- c. The AAU for land improvements, as defined above, shall consist of its purchase price, integral design or professional architect/engineering costs and all other costs necessary to prepare the asset unit for its normal and intended use.
- d. The AAU for a building, as defined above, shall consist of its purchase price, integral design or professional architect/engineering costs, and other costs necessary to prepare the asset unit for its normal and intended use.
- e. The AAU for infrastructure, as defined above, shall consist of its purchase price, integral design or professional architect/engineering costs and all other costs necessary to prepare the asset unit for its normal and intended use.
- f. Each AAU shall be assigned a unique description. A separate property record for each unit shall be established in the Fixed Assets system.
- g. Donated real property assets shall be assigned a fair market value at the time the institution takes custody.
- h. Costs incurred subsequent to the initial acquisition or lease of a building, land improvement, or infrastructure AAU, where the total project cost is \$100,000 or less, shall be considered current period expenditures.
- i. Costs incurred subsequent to the initial acquisition or lease of a building, land improvement, or infrastructure AAU exceeding \$100,000 and results in extending the life or increasing the value of that building (e.g. major renovations and additions), land improvement, or infrastructure shall be capitalized. These costs shall be a component of the existing building, land improvement, or infrastructure AAU.
- j. Replacement costs of integral structural components (e.g. heating system, air conditioning system, electrical system, plumbing system, elevator, boiler, chilling tower, lighting, re-roofing, fixed equipment, floor cover, fire protection system, building

foundation and frame, etc.) of an existing building AAU, shall be capitalized. The value of a demolished or replaced improvement shall be written off in accordance with APM A8.553, General Improvement Write-Off.

- k. If a building is funded in whole or in part under a Federal agreement, the capitalization record shall be annotated to denote the dollar value and percent of capitalization value of Federal participation in the AAU.

3. Construction in Progress

Progress payments for buildings, land improvements, and infrastructure shall utilize the construction in progress subcodes until the capital project is first placed in service. Construction in progress payments for building costs shall utilize subcode 7650, Building, Construction in Prog, construction in progress payments for land improvement costs shall utilize subcode 7521, Land Impvt, Construction in Prog, and construction in progress payments for infrastructure costs shall utilize subcode 7531, Infrastructure Assets Constr in Prog.

Progress payments made to engineers and architects shall utilize 7625, Svc, Non-St Emp - Eng Arch or 7628, Svc, Non-St Emp - Eng Arch No OH, as appropriate to identify professional service costs that shall be capitalized. Examples of engineering or architectural services that are capitalized include replacement of integral structural components (e.g. heating systems, air conditioning systems, elevator, boiler, chilling tower, lighting, re-roofing, fixed equipment, fire protection system, floor cover, building foundation and frame, etc.). Subsequent costs to initial acquisitions that result in extending the life or increasing the value of a real property AAU shall also be capitalized. Engineering and architectural services for re-painting buildings shall use subcode 7125 or 7170 as appropriate. Upon completion of the capital project, the facilities officer shall inform the Inventory Management Section via memorandum of 1) completion of the capital project, 2) in-service date, and 3) percentage cost allocations for construction projects involving multiple AAUs.