

Capitalization Policy: Land, Buildings, and Equipment
Revised: May 29, 2018; January 8, 2019**Purpose**

This policy provides guidance on the proper classification of costs for new construction, renovations, improvements and maintenance projects. It exists to aid in the important task of distinguishing between capital and non-capital costs, and to ensure Northwestern University financial statements are in accordance with Generally Accepted Accounting Principles (GAAP).

Capital plant construction (Fund 812) projects include costs that are capitalized as assets and depreciated over their useful lives. Non-capital plant construction (Fund 820) projects include costs that are recorded as an expense in the year incurred.

Capital asset classifications include:

- Equipment
- Buildings and Building Improvements
- Land
- Improvements other than Building
- Leasehold Improvements

Descriptions and examples of these capital asset classifications are included within this policy, with the exception of equipment. For information on equipment, please refer to the Equipment Policy Manual maintained at the [Accounting Services website](#).

To qualify as a capital project, the project must meet the following criteria:

- Asset must have a useful life greater than one year
- Acquisition value that meets the dollar thresholds in the table below

Capital Asset Threshold and Useful Life by Category

Category	Dollar Threshold	Useful Life
Equipment	\$5,000	3 - 20
Land	\$100,000	N/A
Buildings	\$100,000	40
Building Improvements	\$100,000	10 - 20
Leasehold Improvements	\$100,000	2 - 20
Improvements other than Building	\$100,000	10 - 20

When acquiring land, land improvements, infrastructure, buildings or equipment, all significant expenditures that are necessary to obtain and prepare the asset for its intended use are generally capitalized.

In addition to the above criteria, a capital plant construction project must meet one of the following criteria:

- Costs incurred to improve an asset beyond its original service potential (i.e., betterments, improvements)
- Significant structural change or alteration that increases the usefulness or efficiency of the building (e.g., Addition of a new wing to an existing building)

- Replacement, renewal, or substitution of a current asset for a better one (e.g., Wooden floor is replaced with a concrete floor)

Significant alterations or structural changes are more extensive enhancements or replacements of buildings or structures or systems.

Projects that meet the above criteria are set-up as a capital plant construction project under Fund 812.

Non-capital plant construction projects are projects that do not meet the above criteria. A non-capital plant construction project is set-up under Fund 820, if the project meets the following criteria:

- Cost is budgeted at \$50,000 or greater
- Does not extend the useful life of an asset beyond what was originally scheduled

Non-capital plant construction projects are setup for the purpose of:

- Maintaining the existing level of service of the asset
- Substituting a similar asset with the same performance capabilities as the original/replaced asset

The table below provides a summary comparison of the dollar thresholds and guidelines between Fund 812 and 820:

	Capital (Fund 812)	Non-capital (Fund 820)
Dollar threshold:	Equipment: Cost \$5,000 or more <u>&</u> useful life greater than one (1) year.	Equipment: Cost less than \$5,000 <u>or</u> useful life less than one (1) year.
	Building & Building Improvement, Leasehold improvement, Land & Land Improvements: Costs budgeted at \$100,000 or greater & extends the useful life of the asset.	Building & Building Improvement, Leasehold improvement, Land & Land Improvements: Costs budgeted at \$50,000 or greater & does not extend the useful life of an asset.
Guidelines:	Significant structural changes that increase the building's usefulness or efficiency.	Maintains the existing level of service of the asset such as normal repairs, carpeting & repainting.
	Costs incurred to improve an asset beyond its original service potential (betterments).	
	Substitution of a current asset for a better one. Ex. Wooden floor is replaced with a concrete floor.	Substitution of a similar asset with the same performance capabilities as the original/replaced asset. Ex. wooden floor is replaced with a wooden floor.

Fund 812 - Capital Plant Construction

New Building Construction & Building Improvements

This includes all costs of permanently attached fixtures, machinery that cannot be removed without damaging the structure, all direct costs of construction as well as indirect costs (such as overhead). If the scope of the project is drastically reduced, the project will be reviewed to determine if capitalization is appropriate.

Capital plant construction projects classified as building improvements must meet the dollar threshold for each building included in the project. For example, if a project that includes improvements to two buildings has aggregate costs exceeding the \$100,000 threshold, but the cost allocated to each building does not exceed the threshold amount, the costs should be expensed in the period incurred.

Building improvements – significant alterations, renovations, or structural changes – include, but are not limited to, the following:

- Tuck pointing, facade and foundation repair or similar structural improvement activities

- Window replacement
- Roof replacement
- Asbestos abatement
- HVAC infrastructure upgrade
- Electrical or water infrastructure upgrade
- Emergency infrastructure upgrade
- Upgrades of building interior that enhance functionality
- Improvement of utility equipment
- Required safety costs (e.g., sprinkler replacement, ADA compliance)

Improvements *do not* include routine repairs or maintenance to maintain an asset for its originally planned useful life or performance.

Land Improvements

Land improvements include, but are not limited to, the following:

- Parking lots
- Fencing
- Gates
- Athletic fields

The work to maintain the existing condition, useful life, and function of land improvements is expensed.

Improvements other than Building (Infrastructure)

Infrastructure is recorded as assets only if the University has title to the asset. Examples include:

- Streets
- Lighting
- Curbs
- Utility distribution
- Storm sewers
- Retaining walls

Leasehold Improvements

Improvements to rented property are capitalized if there is a fully executed lease. The leasehold improvement is depreciated using the straight-line method over the term of the lease or useful life of the improvement, whichever is shorter.

External Bond Interest

External bond interest during construction accumulates if all the following conditions are met:

- Expenditures for the asset have been made
- Activities necessary to get the capital asset ready for its intended use are in progress
- Interest costs are being incurred

Capital Leases

If the lease agreement meets one or more of the following criteria it is classified as a capital lease because the transfer of substantially all of the risks and benefits of ownership is considered to have occurred.

1. The title passes to the University at the end of the lease term.
2. The lease contract contains a bargain-purchase option at the end of the lease period.
3. The lease term is at least 75% of the estimated useful life of the asset.
4. The present value of minimum lease payments is 90% of the fair value of the lease property at the inception of the lease, less any applicable investment tax credit to the lessor.

If the lease meets NONE of the criteria, it is classified as an operating lease.

Fund 820 - Noncapital Plant Construction

Plant construction projects associated with building improvements are non-capital if they are insignificant alterations or structural changes that a) cost equal to or greater than \$50,000 and b) meets the following conditions:

- Do not extend the useful life of the building beyond what was originally scheduled.
- Do not change the use, purpose or efficiency of the original space such as 1) a substitution of a similar asset with the same performance capabilities or 2) a normal repair to maintain the existing level of service.
- Do not expand the total square footage of the building.

An insignificant alteration or structural change includes routine recurring activity that must be undertaken to maintain the operation, functionality, appearance or safety of a building or structure.

Repair and Maintenance

Repair and maintenance ventures less than \$50,000 are not setup as a plant project. Examples of repair and maintenance work include:

- Repairs made to prevent damage to a facility
- Custodial services
- Leaky faucet repair
- Replacement of minor parts
- Repainting or wallpapering

Procedure

The construction project ID request form is available electronically as the Chartfield Request form in NUFInancials. The form is completed by the Facilities Management Project Manager after a project's budget has been approved. The Facilities Management Finance Manager reviews the information entered by the Project Manager and submits the form to the Assistant Director of Budgets & Planning in the Budget Office.

The Assistant Director of Budgets & Planning approves the budget and adds the funding chart string information before sending the form to chartfield_request@northwestern.edu via Chartfield Maintenance in NUFInancials.

The Property Accountant in Accounting Services determines if it is a capital or noncapital project and reviews the fund assignment, plant class and plant purpose on the form. If a determination of whether or not a project is capital cannot be concluded from the form, the Property Accountant contacts the project manager for more information. Once a determination is made the Property Accountant documents the factors that resulted in the conclusion on the project ID request form.

At least quarterly, the Property Accountant reviews noncapital projects and investigates any items that appear to have potential to be capital. At year end, when projects are capitalized, if a capital project appears to have potential to be noncapital it will be investigated. These reviews ensure that the projects are appropriately classified and corrected as needed.