



CALIFORNIA INSTITUTE OF TECHNOLOGY BUILDING AND LAND IMPROVEMENT CAPITALIZATION POLICY

THRESHOLD LIMITS:

Generally, the dollar threshold for capitalizing buildings, land improvements and building improvements at California Institute of Technology (Caltech) is \$100,000 per building or location. Renovation/rehabilitation projects with expenditures of less than \$100,000 will be expensed, rather than capitalized, in the year the expenditures are incurred. In certain instances a single project with a budget in excess of \$100,000 may be established for a campus wide initiative. If the cost of improvements to any one building or land improvement project does not exceed \$100,000, the project costs will be expensed, as more fully explained below.

EFFECTIVE DATE: JULY 1, 2002. Policy revised July 2003 and March 2007.

ISSUED BY: Office of Financial Services (OFS)/Accounting Services (AS)

CAPITAL PROJECTS (PLFC):

Building or land improvement projects for a single building or location with an estimated budget in excess of \$100,000 over the life of the project will be set up as capital projects (also known as a PLFC). One or more tasks will be set up for each PLFC project. Individual tasks within a capital project may be less than \$100,000, as long as the project as a whole is in excess of \$100,000.

In addition to the \$100,000 threshold, the improvement project must be owned by Caltech and there must be current and expected future economic benefits to Caltech, resulting in a tangible asset.

Costs to be included when constructing a building:

- permit fees, design fees, engineering fees, architectural fees directly related to the building and land improvements
- consultant fees (professional fees and reimbursable costs) directly related to the building construction
- costs of excavating land in preparation for construction
- cost of project management operations via the recharge rate pre-determined by the Cost Studies Group
- building fixtures permanently attached to or integrated into the building or structure
- travel expenses which are directly related to the building project
- constructing the building itself



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Costs to be excluded:

- parking
- travel not directly related to the building project
- general supplies
- maintenance and repairs
- entertainment
- other consultant fees
- administrative salaries
- artwork
- moveable equipment and furniture (not permanently attached to a building or structure)

These are general guidelines. If the expenditure requires a judgment call, whether listed above or not, the individual item will be analyzed. Property Services policies should be adhered to for moveable equipment and furniture.

NON-CAPITAL PROJECTS (PLFD):

A non-capital project (i.e. PLFD) will be established when the estimated budget for a single building or land improvement project is less than \$100,000. In addition, artwork, moveable equipment and furniture, may be recorded in a non-capital project, regardless of their cost.

PROJECTS WITH CAPITAL AND NON-CAPITAL COMPONENTS:

It is possible for some costs of a construction project to be capital and others to be non-capital. In these instances, Accounting Services will establish one or more capital (PLFC) projects and one or more non-capital (PLFD) projects for a single construction project. Accounting Services will work with Campus Planning to determine whether both capital and non-capital projects are needed for large construction projects.

CAMPUS WIDE IMPROVEMENTS:

Campus wide improvements can be related to either buildings or land improvements. They are building related when they are a part of the building. Examples include roofs, alarm systems, and elevators. On the other hand, if they



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are not related to or associated with any specific building, then they may be considered land improvements. Land improvements consist of betterments, other than buildings, that bring the land up to the condition needed for its intended use. Examples include site improvements, i.e. fill and grading in preparation for new building; installation of utilities which are external to the buildings; removing, relocating or reconstructing outside telephone and power lines; retaining walls, landscaping, external lighting, sidewalks, streets, and sewers.

If a single land improvement project exceeds \$100,000, the costs should be charged to a capital project (PLFC) and these costs will be capitalized. The capitalized costs will be depreciated over their useful lives. If a single project is less than \$100,000, the costs should be charged to a non-capital project (PLFD) and these costs will be expensed.

Charges labeled "Infrastructure" by Campus Planning may belong to either building or land improvements depending on whether they increase the value or benefit of the building or the land.

A non-capital project (PLFD) should be established for building projects where the budget exceeds \$100,000 when the costs are spread over multiple buildings and the cost of improvements to any one building do not exceed \$100,000. A capital project (PLFC) will be established for a specific building or location if a campus wide initiative will result in expenditures of more than \$100,000 for any one particular building or land improvement.

Also one capital project account (PLFC) may be established for several buildings which are grouped together and that also have total expenditures of \$100,000 or more, if there are specific tasks for each building or location. Note that in these circumstances the budget for each task must exceed \$100,000.

Periodically all non-capital projects (PLFD) will be monitored for growth to \$100,000 or more. In this occurrence, the project will be reviewed and analyzed.

Before year end, all non-capital projects (PLFD) will be reviewed for possible relationships which would require any reclassification into a common group that should then be considered as a capital project. This ensures that in the aggregate the values of total assets are not understated.



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LAND ACQUISITION:

Land cost includes the contract price, as well as the costs of preparing the land for its intended use, including transaction closing costs, title cost, and the costs of surveys. Removal of the old building as well as clearing, grading, and filling are also considered land costs. Salvage receipts on the demolition of the old building are treated as reductions in the price of the land. Land has an unlimited economic life and is not depreciated.

SETUP OF PROJECT PTA:

Campus Planning works with the department or division to determine the project task title, description and location, the administrative point of contact, the estimated cost summary and breakdown, the timing and source of funding, the assigning of a Manager to oversee the project, and the setting up of the PTA for the project. Based on this information, an OGM Plant Fund Task Set-up and Task Supplement Form is filled out by Campus Planning and signed by appropriate authorized personnel. The completed form and its supporting documents (i.e. the Provost funding approval memo, the scope and budget report, and the preliminary cost estimate report) are sent to Accounting Services (AS). The Accounting Manager in AS will review and approve the form. Then Accounting Services will set up a new capital project PTA in the OGM module and send a copy of the completed set-up form to Campus Planning.

COMMUNICATION BETWEEN CAMPUS PLANNING (CP) AND ACCOUNTING SERVICES (AS)

AS will contact CP if:

1. The final costs on a project originally established as a capital project (PLFC) are less than \$100,000. Subject to verification from CP that no additional costs will be forthcoming on that project, AS will transfer the costs to a non-capital project and close out the original project.
2. The final costs on a project originally established as a non-capital project (PLFD) are greater than \$100,000. Subject to verification from CP, OFS will reclassify and close out that project as a capital project, if the project meets all other criteria for a capital project.

CP will contact AS if:

3. A department/division provides a non-plant fund PTA for a building or land improvement project. Whenever possible, a Plant fund PTA will be established for the project. CP will work with the department or division to obtain authorization for transfer of funding to the newly created PTA. In some



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cases it is not practical or possible to transfer funding from the department or division PTA to a Plant fund PTA. In these cases, CP will obtain authorization from the department or division to create and charge distinct capital PTAs for the costs.

In addition, CP and AS will meet on a quarterly basis to evaluate all major capital projects and to review all the expenditures to ensure that they are recorded appropriately.

Should there be an exceptional case or one that requires a judgment call or expertise, Accounting Services and Campus Planning will confer and jointly determine whether a proposed project is capital or non-capital in nature.