Clarification of Capitalizable Project Costs

This memo for Clarification of Capitalizable Project Costs covers the following topics. Questions concerning the following topics and/or those topics not covered in this memo should be directed to the Capital Accounting department. Section headings are:

1. Non-Capitalizable Project Expenditures
2. Internal Labor Capitalization (examples)
3. Moving Expenditures Capitalization (examples)
4. Attic Stock Capitalization Policies (examples)
5. Capitalization Threshold

1. Non-Capitalizable Project Expenditures Policy

Projects sometimes incur costs that are not appropriate to capitalize. These costs include but are not limited to:

- Opening/completion parties
- Student or employee moral (trips, gifts, or parties)
- Entertainment
- Flowers
- Non-business trips (business trips that are not directly related to the construction of the asset are not capitalizable and should not be charged to the project)
- Food

Acceptable business food expenses include business lunch meetings and food brought into the work site to keep employees/contractors working.

Non-capitalizable costs may be recorded against either the project owning organization’s administrative budget or the project budget, if included in the BOT or Form 1 authority. It is recommended that for non-capital, discretionary expenditures, they be recorded against the department’s operating budget. If recorded against the project’s budget, the cost of the project and/or “cost per square foot” of a build-out will be overstated. However, if the cost is part of the project budget, applying the expenditure to the project is allowable, but may not be capitalized.

Expenditure type 56065 (Legacy GL number 94495) has been created for non-capitalizable expenditures, other than moving, storage, SIP, GUP, and may be used in place of those identified below (the expenditure types listed below may continue to be used in order to monitor specific budget lines). This expenditure type is to be used only on capitalizable projects. If the expenditures are charged to a department’s operating budget or a non-capital project, the

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appropriate expenditure types, for operating expenses, should continue to be used. Additionally, any expenditures being charged to expenditure type 56065 (Non-capitalizable expenditures), 52240 (Employee Morale; legacy number 94598), 52930 (Alcoholic Beverages or Entertainment; legacy number 94599), and 52210 (Employee Gifts; legacy number 94607) will not be capitalized and will require a non-debt funding source. A non-debt funding source will be required at the time the above mentioned non-capitalizable costs are incurred, including moving and storage (if applicable).

The following three sections will answer the following questions by providing examples of capitalizable and non-capitalizable costs. Those costs that are not capitalizable should be charged to the department’s operating account (PTA in Oracle) and not a capital project.

- Should Non-Service Center Internal labor costs be included in the cost of construction on capital related projects?
- Are costs associated with transportation (moving/freight expenditures) and storage of existing FF&E or third party assets during a capital construction project eligible for capitalization?
- How much “additional” construction supplies and/or FF&E may be purchased for a project and be capitalized as part of that project?

2. Internal Labor Capitalization Policy

**Capitalizable costs:**
- Person is performing in the capacity of an architect, construction manager, or construction worker (plumber, electrician, carpenter, etc.).
- Project specific and charged to a specific capital project (not a general account).
- Work exclusively related to a project or subproject (e.g., task - F&F component of a job) and directly managed by that department and not another (e.g., DP&M).
- Internal labor costs that are to be included in project costs and capitalized to a project managed by DP&M (e.g., BOT approved) will be determined and approved by D&M.
- Hours are tracked (by person and project) and capitalized based on the employee’s hourly rate.

**Non-Capitalizable costs (expenditures should be expensed as incurred):**
- Work related to a parent project managed by DP&M and not approved by DP&M.
- Individuals working in the capacity of a business owner.
- Labor on non-capital projects.
- Services incidental to their work, such as general officers and employees.
• General overhead costs that would have been incurred without the capital project (fixed overhead).
• Work not directly related to the development or construction of the project.
• Self-constructed asset cost may not exceed the market cost to construct.
• Project Manager (“PM”) time related to non-capital repairs and maintenance.
• Administrative support
• PM time spent on various projects and later arbitrarily allocated.
• PM time not tracked by time and project.
• Time spent on operating inventory (e.g., performing an inventory of supplies).

3. Moving Expenditures Capitalization Policy

**Capitalizable costs:**

• Freight, moving, and storage of construction materials (new components) until project construction is complete may be capitalized.
• Storage that is an incremental expense (for a specific project), not a fixed administrative expense. For example, additional storage required to house the FF&E (it may not be the entire storage cost for multiple projects or operating inventory storage).
• Storage of materials prior to project completion (punch-list is incomplete and/or asset is not in-service)

**Non-Capitalizable costs (expenditures should be expensed as incurred):**

• Moving and/or storage of (a) existing FF&E or (b) existing tenant assets during renovation of a capital asset may not be capitalized.
• Moving and/or storage costs that are associated with dismantlement, crating, shipping, and reinstallation of FF&E or a component of FF&E that has been in service.
• Non-incremental storage expense (e.g., existing storage that is used temporarily for excess construction materials).
• General storage costs.
• Moving and/or storage expenditures after construction completion (punch-list is complete and/or asset is in-service).
• Storage for attic stock.

4. Attic Stock Capitalization Policy

**Capitalizable costs:**
• Policy for attic stock on capital improvement projects shall follow Industry Standards. In most cases, the attic stock requirements for these materials (all finish and material items such as paint, flooring, wall covering, or other items that require specific color or pattern match) shall be no more than 5%. Project specifications should list the required amount of attic stock including the description of each attic stock item.

• Interim replacement stock of 1-2% ‘non-standard’ items for each project of substantial size (e.g., BOT or entire interior renovation) may be included in major construction projects upon prior agreement and justification (defined and explained in approved Form 1 or BOT). Replacement stock only applies to non-standard items that are location specific, and not those items that can be used in other facilities or are often interchanged with other locations.

• All non-standard furniture attic stock items will be included in the detail FF&E budgets and furniture lists and approved on the Form 1 or BOT during the design process.

Non-Capitalizable costs (expenditures should be expensed as incurred):

• Furniture is not a finished or material item and may not be treated as attic stock. Inasmuch as the standard attic stock requirements do not apply to these items.

• Mattresses, desk chairs, and standard dressers that are commonly used throughout housing facilities are not eligible for attic stock. Lounge chairs, sofas and other large scale special items are also ineligible for attic stock.

• Other costs that do not meet the definition of allowable attic stock or non-standard may be purchased as operating inventory and must be accounted for based on current capitalization policy (separate from the main project and purchase). Effective FY04, the minimum capitalization threshold for FF&E will increase from $1500 to $5000.

5. Capitalization Threshold

Beginning fiscal year 2004 (September 1, 2003), the following capitalization policy will be in effect for FF&E purchases that are not purchased as part of a capital project (e.g., new building or renovation):

An FF&E purchase may be capitalized if the first and either the second or third conditions are met:
1. The asset life must have a useful life exceeding one year
2. The asset (single unit) must be equal to or exceed $5,000 (including tax and shipping/freight\(^1\))

\(^1\) Beginning fiscal year 2004, sales tax, shipping, and/or freight will be included in the cost of all FF&E. Sales tax, shipping and/or freight should all be charged to the asset expenditure type when purchasing an asset that is tagged for inventory tracking (e.g., moveable equipment).

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3. Per unit cost is less than $5,000, but there are 25 or more identical units purchased on a single requisition and a single project with a total value greater than or equal to $10,000; additionally, an individual unit must be greater than or equal to $400.

If the first and either second or third condition are not met, the purchase should be expensed. If the two conditions are met, the purchase should be capitalized. In the event it qualifies under the bulk purchase criteria, the purchase/asset should be coded and tracked (tagged) as a capital asset.

Beginning September 1, 2003, new assets that are purchased in bulk will not be identified by a separate expenditure type. However, assets previously purchased under the bulk equipment criteria will be converted to Oracle using a Bulk Equipment expenditure type and continue to use the bulk equipment expenditure type after conversion. Once a new asset is determined to be a capital purchase, it should use the appropriate expenditure type, and asset life in Fixed Assets.

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2 For sponsored research projects, an asset may only be capitalized if it meets the first and second (≥/$5,000) threshold. Purchases that qualify under this third category must be expensed.