

## Capitalization Policy

<b>Effective Date:</b>	November 21, 2022
<b>Supersedes:</b>	Capitalization Policy effective December 2, 2017
<b>Policy Review Date:</b>	To be reviewed every 3 years from the effective date
<b>Issuing Authority:</b>	Research Foundation President
<b>Responsible Party:</b>	RF Chief Financial Officer
<b>Contact Information:</b>	518.434.7050 <a href="mailto:rffinance@rfsuny.org">rffinance@rfsuny.org</a>

### Reason for Policy

The Research Foundation for The State University of New York ("RF") has created this Capitalization Policy to outline and define the criteria for capitalizing various assets owned by the RF.

### Statement of Policy

The RF shall capitalize assets if they satisfy the following:

- They are purchased with RF unrestricted funds as defined by specific award purpose classifications in the grants system (see Award Purpose Capitalization Matrix); or
- They are purchased on sponsored awards for Research Supported Economic Development or Research Infrastructure; or
- They are Donated or Gifted to the RF.

For all of the above:

- The RF must have Unobligated Title; and
- The asset must have a useful life of more than one year (in accordance with Office of Management and Budget ("OMB") requirements.
- The asset fits within one of the defined categories below for "Types of Capitalized Assets".

Conversely, assets will not be capitalized if they are purchased using funds from contracted service awards (e.g. staffing service, clinical practice plans, fiscal services agreements) or if they are purchased on sponsored awards (except as stated above). This includes equipment with title vesting with the RF after the sponsored award is completed.

### Types of Capitalized Assets

The following RF assets are considered capital assets:

- Real Property;
- Buildings;
- Building/Leasehold Improvements of \$100,000 or more;
- Equipment valued at \$5,000 or more including software purchases or subscriptions (greater than one year) of \$5,000 or more, in accordance with OMB requirements; and
- Intangible assets of \$1,000,000 or more.  
Note: All normal expenditures for readying an asset for its intended use are capitalized.
- Any lease that has aggregate lease payments of \$1,000,000 or more will be evaluated in accordance with ASC 842 to either be a finance or operating lease.

If an asset is purchased and meets the above criteria, the value is assigned at Acquisition Cost. If an asset is donated or contributed, the value is assigned at Fair Market Value.

## Assigning Asset Value

The preferred method of determining Fair Market Value is to obtain an independent written appraisal. If a written appraisal is not obtained one of the following methodologies may be used to determine Fair Market Value:

- A qualified expert on the faculty or staff if he or she is considered to hold special knowledge or expertise related to the property being donated may opine on the Fair Market Value;
- Documentation of Fair Market Value may be obtained from a qualified outside source such as a list price catalog, a "blue book" or a knowledgeable dealer; or
- The cost to purchase the gift outright from a vendor may be identified or an original bill of sale obtained in the case of new equipment. If an appraisal is not obtained, the methodology used for determining Fair Market Value must be documented. The documentation should include, but not be limited to, steps taken to obtain information, sources of information and any assumptions made. The RF Central Office reserves the right to mandate that the operating location obtain and pay for a written appraisal. The documentation must be retained in accordance with the RF's record retention requirements. See the RF Records Management Policy.

If the asset will be included in the Facilities and Administrative (F&A) rate, an independent appraisal should be obtained in accordance with the DCA Best Practice Manual for Reviewing College and University Cost Rate Proposals which provides as follows: "If cost records do not exist, estimated acquisition cost should be based on an independent and professional appraisal."

### 1. Real Property

Capitalization costs include but are not limited to:

- Original contract price;
- Commissions incurred in acquiring the subject Real Property;
- Legal fees incurred in negotiating, preparing and reviewing the acquisition documents;
- Survey costs; and
- Other costs necessary to prepare real property for its intended use.

### 2. Buildings

Capitalization costs include, but are not limited to, the following:

- Original contract price of cost of construction;
- Expenses incurred to remodel, recondition, or alter a purchased building to make it available for the purpose for which it was acquired;
- Expenses incurred for plans, specifications, blueprints, etc.;
- Cost of building permits;
- Payment of non-current taxes accrued on the building at date of purchase, if payable by purchaser;
- Architects' and engineers' fees for design and supervision; and
- Costs of temporary building used during the construction period.

### 3. Building/Leasehold Improvements

Building/Leasehold improvements are significant alterations, renovations, or structural changes that meet or exceed \$100,000 and increase the usefulness of the asset, enhance its efficiency, or prolong its useful life by at least one year. Operating locations should coordinate reporting with their campus facilities department and SUNY System Administration to ensure that expenditures are reported properly and capitalized if appropriate.

### 4. Equipment

Capitalization of equipment costs include, but are not limited to, the following (in conformance with the OMB guidelines):

- Original contract or invoice cost;
- Freight, import duties, sales or use taxes, handling and storage costs;
- Specific in-transit insurance charges;
- Costs of preparing foundations and other costs connected to making a proper site for the asset;
- Installation charges; and
- Costs for reconditioning used equipment to make it usable for the purpose it was purchased.

### 5. Leased Assets

Leased assets shall be capitalized and recorded as a finance lease if the lease agreement meets any of the following criteria under ASC 842-10-25-2:

- The lease transfers ownership of the underlying asset to the RF by the end of the lease term;
- The lease grants the RF an option to purchase the underlying asset that the RF is reasonably certain to exercise;

- The lease term is for the major part of the remaining economic life of the underlying asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset, this criterion shall not be used for purposes of classifying the lease;
- The present value of the sum of the lease payments and any residual value guaranteed by the RF that is not already reflected in the lease payments in accordance with paragraph 842-10-350-5(f) equals or exceeds substantially all of the fair value of the underlying asset;
- The underlying asset is of such specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

When none of the criteria in paragraph ASC 842-10-25-2 are met the RF shall classify the lease as an operating lease and record a right to use asset and liability.

## 6. Intangible Assets

Intangible assets are those that lack physical substance and are non-financial in nature. They must be identifiable, meaning they are either capable of being separated by means of sale, transfer, license or rent, or they arise from contractual or legal rights.

### a. Software Development

For software developed or obtained for internal use, the RF will conform to the guidance in ASC 350-40 that states that internal and external costs incurred to develop internal-use computer software during the application development stage shall be capitalized. The internal-use software must have both of the following characteristics to be capitalized:

The software is acquired, internally developed, or modified solely to meet the entity's internal needs; and

During the software's development or modification, no substantive plan exists or is being developed to market the software externally.

For the cost of specified upgrades and enhancements for internal-use computer software to be capitalized it must be probable that those expenditures will result in additional functionality.

### b. Intangible Assets - Other

Examples include, but are not limited to, land use rights or easements, patents, copyrights, trademarks, permits and licenses.

## Inventory Requirements

The RF requires that equipment must be entered into the Real Asset Management (RAM) property system within 90 days of payment date. If additional time is needed, campus staff must contact RF Central Office Finance staff.

## Responsibilities

The following table outlines the responsibilities for compliance with this Policy:

Responsible Party	Responsibility
Operations Managers or designee	Responsible for oversight and management of implementation of this policy at campus locations
Campus and Central Office staff members who initiate, process, review, approve or record financial transactions on behalf of the RF	Responsible for administering this policy.
RF Chief Financial Officer	Responsible for maintaining, evaluating and periodically updating this policy as needed.

## Definitions

*Acquisition Cost*: the net invoice price of the asset, plus the cost of any modifications, attachments,

accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired.

*Fair Market Value*: the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (Source: FASB Master Glossary)

*Real Property*: land and anything growing on, attached to, or erected on it, that cannot be removed without injury to the land. (Source: Black's Law Dictionary, (Eighth Ed. 2004))

*Research Supported Economic Development*: activity through sponsors designated by OM or designee where the purpose is to support the development or growth of new or existing businesses and to enable the creation or support of jobs. Examples include awards sponsored by the NYS Department of Economic Development.

*Research Infrastructure*: facilities, resources, and related services that are used to conduct top-level research, including major building purchases or renovations and scientific equipment or sets of instruments.

*Unobligated Title*: Title to an asset which is clear of conditions. Examples of conditions include but are not limited to OMB restrictions on the use and sale of federally-funded equipment, including requirements to refund the government if the item is sold.

## Related Information

[Award Purpose Capitalization Matrix](#)

## Forms

None

## History

Date	Summary
November 21, 2022	Changes made to the treatment of leases due to FASB Standard update.
October 27, 2021	Policy reviewed
December 1, 2017	Updated types of capitalized assets to include software and changed the requirement of when assets are required to be added to RAMI from 60 days of the asset being placed into service to 90 days from the payment date.
September 1, 2014	Updated to include criteria for research supported economic development and research infrastructure.