**Capitalization Procedure**

Queen’s university capitalizes tangible and intangible capital assets.

Capital assets are tangible properties, such as land, buildings and equipment as well as intangible properties that meet all of the following criteria:

1. are held for use in the provision of services, for administrative purposes, for production of goods or for the maintenance, repair, development or construction of other tangible capital assets;
2. have been acquired, constructed or developed with the intention of being used on a continuing basis;
3. are not intended for sale in the ordinary course of operations; and
4. are not held as part of a collection

Intangible assets are identifiable non-monetary assets without physical substance. They are separately identifiable and controlled, and have future economic benefits.

**Application at Queen’s University**

**Recognition and measurement**

Purchased assets shall be recorded at cost.

Donated assets shall be recorded at fair value at the time of receipt; except for, collections which are capitalized at a nominal value.

The cost of constructed assets shall include direct construction or development costs attributable to the construction or development activity.

Interest on financing shall not be included in the cost of assets developed over a period of time.

**Asset Classification**

Capital assets should be categorized into one the following classifications:

* Land
* Buildings and its components
* Equipment and furnishings
* Library acquisitions
* Construction in progress
* Intangible assets
* Leasehold improvements

**Capitalization thresholds**

Items of equipment and furnishings, with a life expectancy of 1 year or more and a value of $10,000 or more are considered capital assets.

Intangible assets with a life expectancy of 5 years or more and a value of $500,000 or more are considered capital assets.

Leasehold improvements, and renovations and alterations that meet the definition of a betterment and have a value of $500,000 or more are considered capital assets. A betterment is a cost incurred to enhance the service potential of a tangible capital asset. Service potential may be enhanced when there is an increase in the previously assessed service capacity, associated operating costs are lowered, the useful life is extended, or the quality of output is improved. The cost incurred in the maintenance of the service potential of a tangible capital asset is a repair, not a betterment.

All library books, not part of a collection, are capitalized. Library books part of a collection are capitalized at nominal value.

Land and buildings are considered capital assets unless they are being held only for resale, (which sometimes happens in the case of donated land or a donated building).

New buildings that are capitalized beginning fiscal 2020 have their costs componentized into 1 of 3 categories: building shell, building services and roofing and interior construction. Residual costs to land and buildings that have been capitalized prior to 2020, are capitalized under the previous procedure. Each building or building renovation that is considered a capital asset is classified into 1 of 4 types: New Build, Retrofit, Utility/Site build or Fields and Stadiums. The project type determines the breakdown of the component costs (chart below). An ongoing review for each new addition is still completed to ensure the type assigned to it reasonably reflects the actual costs of the addition.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Cost allocation** | **Project type** |  |  |  |
| **Component** | **New Build** | **Retrofit** | **Utility/Site** | **Field/Stadium** |
| Building shell | 40% | 6.5% | 0% | 100% |
| Building services and roofing | 36.5% | 75.5% | 100% | 0% |
| Interior construction | 23.5% | 18% | 0% | 0% |

**Amortization**

The cost, less any residual value, of a capital asset with a limited life will be amortized over its useful life. Assets are capitalized in the year of acquisition and amortized on a straight line basis over the useful life of the asset based on the following categories:

|  |  |
| --- | --- |
| **Asset** | **Useful Life (years)** |
| Buildings and their components | 15-40 |
| Equipment and furnishings | 5 |
| Intangible assets | 5 |
| Library books | 5 |
| Leasehold improvements | Term of lease |

|  |  |
| --- | --- |
| **Building components** | **Useful life (years)** |
| Building shell | 40 |
| Building services and roofing | 25 |
| Interior construction | 15 |

A full year of amortization is taken in the year the asset is put into use. In the year of disposal, no amortization is taken.

Fully amortized assets are written off as follows:

Library books: After 20 years

Equipment and Furnishings: After 10 years

Software/Intangible Assets: After asset is no longer in use

Leasehold Improvements: End of the lease

**Other Information**

Since Board approval is required for projects over $5M, assume all projects over this threshold will be capitalized when the work is done to a single building.

Projects between $2.5-5M are normally capitalized, as they require Senior Leadership Team (SLT) approval but are reviewed on an individual basis. Projects under $2.5M and above the minimum threshold of $500,000 can still be capitalized, but would require substantial evidence that it is a betterment to the entire building or building a new building. Renovations such as revitalizing 1 full floor will no longer be reviewed for capitalization as it is not done to the entire building.

Projects where HVAC systems are replaced in the entire building would be R&A projects, as the equipment portion will be picked up via 614xxx account process.

***Procedure Maintained By: Financial Analysis and Reporting***

***Updated: June 2020***