

STANDARD ADMINISTRATIVE PROCEDURE

51.99.99.M0.01 Procedure for Capitalizing Improvements on Buildings

Approved September 15, 1997

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Standard Administrative Procedure Statement

This procedure should be used to determine if expenditures for improvements to buildings should be capitalized. Every situation is unique and the decision to capitalize cost should be made on a case by case basis using the criteria included.

Reason SAP

To insure that improvements to buildings that should be capitalized are consistently processed correctly so those costs can be added to the value of the existing buildings and depreciation expense can be captured. Also, that those costs expended on buildings that are not to be capitalized are expensed. Determining at the beginning of a project, if expenditures should be capitalized will improve the efficiency and accuracy of the process.

Official Process

1. General

- 1.1. Any renovation that increases the value and/or useful life, or new installation to a building, where the total of all expenditures (materials, labor, and all costs to complete the project) meets the building threshold of \$100,000.00 should be capitalized. It will be added to the cost of the building as a component(s) with its own in service date and depreciation.
- 1.2. For a replacement to be capitalized it must be part of a major repair/rehabilitation project that meets the building threshold of \$100,000.00 and increases the useful life and/or value of the building, or a replacement may be capitalized if it is of significantly improved quality and higher value compared to the old item and meets the building threshold. It will be added to the cost of the building as a component(s) with its own in service date and depreciation.

1.3. Restoration to original utility level is not capitalized.

2. Criteria to determine if capitalized

2.1. Renovation - A renovation that is a major repair or rehabilitation project, meeting threshold, that increases the value and/or useful life of the building would be **capitalized**.

Example - rehabilitation of a building that may include, but is not limited to, upgraded building systems (heating/cooling, electric, plumbing) interior or exterior upgrades, additions, and space conversions.

2.2. New Installation - A new installation or addition, meeting threshold, would be **capitalized**.

Examples - Converting a classroom (basic room) to a laboratory (new installation of permanently attached specialized equipment) or an addition that increases the square footage of the building.

2.3. Replacement

2.3.1. If a replacement is part of a larger renovation where the total of all costs meets threshold and increases the useful life and/or value of the building, it would be **capitalized** as a part of the project.

Example - Replacement of the heating/cooling system as part of a building renovation that increases the useful life and/or value of the building.

2.3.2. If the replacement meets the building threshold and is of *significantly improved quality and higher value* it would be **capitalized**.

Example- Replacement of a shingle roof with a tile roof having additional qualities the original did not have.

2.3.3. If the replacement restores the building to its original utility level, replacement of existing components with like components and the building would function as it did before, the expenditure would **not be capitalized**.

Examples - Replacement of a shingle roof with a shingle roof of similar quality, or reconfiguring existing space that does not add square footage or significantly increase the value of the building.

3. Completion of Improvement - At the completion of an improvement to a building that has been determined to meet the criteria to be capitalized, Property Management must be supplied with the information necessary to add the cost to the building asset.

Related Statutes, Policies, or Requirements

SPA Process User's Guide (State Property Accounting) Chapter 1-Overview of Capital Assets-Building and Building Improvements

<https://fmx.cpa.state.tx.us/fmx/pubs/spaproc/index.php>

Contact Office

For clarification or interpretation, contact Property Management at property@tamu.edu.

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