

CRITERIA FOR EXPENDITURE CHARGES FOR SUPPLIES, EQUIPMENT AND CAPITAL OUTLAY

Determining whether an item is supplies or equipment can be determined by the length of time it is serviceable and its contribution to the plant value. Supplies are consumed and replaced without increasing the value of physical properties of the District. Equipment has relatively permanent value - its purchase may increase the value of District physical property.

In accordance with the State Budget and Accounting Manual (BAM) and Business Procedure 22.07, expenditures for equipment, improvement of sites and improvement of buildings are charged as capital outlay (though not always capitalized); those for supplies are charged as current expense.

1. Criteria to Distinguish Supplies from Equipment

Supplies are expendable, easily worn out or damaged, or have a relative short service life. Examples: paper, pencils, cleaning materials, nails, scissors, test tubes, thumbtacks and keys.

Supplies may have characteristics of equipment, but they have a low unit cost or are frequently lost in normal use. Examples: stop watches, tablet arm chairs and hand tools.

Print and electronic media purchased for a college library's permanent collection, although having low cost, are generally classified in object classification 56300.

If the answer to any of the questions below is yes, the item is classified as a supply and recorded under object classification 54000. If all answers are no, the item is classified as equipment and recorded under object classification 56400.

- a. Does the item lose its original shape and appearance with use?
- b. Is it consumable, with a normal service life of less than two years?
- c. Is it easily broken, damaged or lost in normal use?
- d. Is it usually more feasible to replace it with a new unit than repair it?
- e. Is it an inexpensive item? Does the small unit cost make it inadvisable to inventory the item?

2. Criteria for Identifying Capital Outlay

Capital outlay expenditures result in acquisition of capital assets or additions to capital assets. These expenditures are for sites, improvement of sites, buildings and/or their improvement, purchase of initial or additional equipment and purchase of books for new or major expansion of libraries.

3. Equipment

Equipment (56400) includes movable personal property of a relatively permanent nature and/or of significant value. Examples: furniture, machines, musical instruments and vehicles.

The cost of equipment constructed for the District should include all the materials and labor used to produce the item.

4. New Sites and Improvement of Sites

New sites (56110) and improvement of sites (56120-56126) include acquisition of land, improvement of new and old sites and adjacent ways, and initial acquisition of physical property of a permanent nature attached to land. Examples: land, curbs, grading, playground surfacing, retaining walls, sidewalks, storm drain systems, landscaping, driveways, parking lots, fixed playground apparatus and flagpoles.

5. Buildings

Buildings (56200-56215) include new construction, improvements and remodeling (substantial betterment), fixtures and service systems.

- a. **New Construction.** Construction or purchase of new buildings and additions includes advertising costs, architectural and engineering fees, blueprints, inspections, tests and examinations, demolition, razing of existing obsolete or old buildings to clear sites for new buildings, building fixtures and service systems, and any other expenditures directly related to the construction or acquisition of buildings.
- b. **Improvement of Buildings.** Improvement of buildings includes alterations, remodeling, renovations and replacement of buildings in whole or in part. Such improvements include replacing existing building units with improved or superior units. Significant improvement only should be considered capital outlay.
- c. **Fixtures and Service Systems.** Fixtures include attachments which function as an integral part of the building. Such fixtures are generally accepted as real property and lose functional identity as separate units. Service systems serve a single function throughout a building, are usually included as a part of the original construction, are an integral part of a building and are expected to have a long and useful life. Such systems are generally accepted as real property and lose identity as separate units. Examples: telecommunications infrastructure, heating and ventilating systems, and electrical and plumbing systems.

To be classified as either a building fixture or a service system, an item must conform to the following five criteria:

- (1) Item must be attached securely to the building.
- (2) Item must function as part of the building.
- (3) Removal of the item results in visible damage to the building or impairs the designed use of the facility.
- (4) Item is generally accepted as real property (not personal property).
- (5) Item loses functional identity as a separate unit.