

**APPENDIX D: Capital Expenditure Guidelines**

**Excerpt from Chief Financial Officer’s Memo dated April 19, 2013**

<b>TYPE OF COST</b>	<b>CAPITAL EXPENDITURE</b>	<b>ALLOWABLE UNDER APPLICABLE IRS REGULATIONS</b>	<b>EXAMPLES</b>
Costs that materially enhance the value, use, life expectancy, strength or capacity of property	Yes	Yes	Amount paid for new buildings or for permanent improvement made to increase value of the property.
Costs that adapt property to a new or different use or increase future operating efficiencies in a material way	Likely, but based on facts	Likely	Building additions
New Construction	Yes	Yes	Architect, engineering, design or installation cost and acquisition cost. An expenses associated with the acquisition of real property is a capital expense.
Renovation	Yes	Yes	Replacement of the following: air conditioning, furnace, boilers, electrical systems, land improvement, and carpet replacement
Expansion	Yes	Yes	Building additions
New Equipment	Yes	Yes	Office furnishings, medical and laboratory equipment, vehicles and computers Equipment must have a useful life beyond one year.
Emergency Repairs	No	No	Repairs or temporary spare parts do not extend the useful life of the property.
Preventative Costs	Yes	Yes	Fire proofing walls or water proofing basements
Routine and On-going Maintenance	No	No	Patching walls, cleaning exterior of building, annual vehicle inspections. Expenses that keep property in working order are not capital expenditures.
Annual Testing of Equipment	No	No	Annual testing of fire alarms
Travel, Meals and Accommodations	No	No	Any travel, mileage, meals and lodging costs are not capital expenditures.

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Testing of Equipment at Initial Purchase included in Price	Yes	Yes	Cost of testing <b>newly acquired</b> property that is included in the purchase price may be considered a capital expenditure.
Warranty as Part of Purchase Price of Equipment	Yes	Yes	If the warranty is part of the initial purchase of equipment even if separately stated then the warranty is a capital expenditure.
Additional/Extended Warranty	No	No	If the warranty is supplemental/extended, then it is considered an annual maintenance type of contract.
Software Technical Support Services	Generally No, but there may be special circumstances		First year technical support services costs would be considered capital expenditure and paid as part of the purchase. Beyond the first year, additional costs for year 2 and beyond are not capital eligible
Studies, Surveys or Consulting	Maybe, if resulting in the acquisition of capital assets	Maybe, if associated with a new asset	Consulting cost that result in the actual expansion of a project would be considered capital expenditures; otherwise it is an ordinary business expense.
Removal and Replacement of Property	Yes	Yes	Demolition of a building on land and land preparation cost with the intent to rebuild are capital expenditures.
Removal/Deconstruction without Replacement	Maybe, depending on facts and whether property is enhanced by removal/deconstruction	Maybe	The demolition of buildings or structures on land that increase the value of the land for resale is a capital expenditure even if a building is not erected on the land.
Training Costs	Generally No, but if in conjunction with entirely new system, possibly	No	Training costs are only capital cost when the training is intended primarily to obtain future benefits beyond traditionally associated with training provided in the ordinary course of business.