



## Illinois Department of Corrections

### Administrative Directive

Number: <b>02.28.103</b>	Title: <b>Capitalization Guidelines</b>	Effective: <b>8/1/2021</b>
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<b>Authorized by:</b>	<i>[Original Authorized Copy on File]</i>	<b>Rob Jeffreys</b> Director
<b>Supersedes:</b>	02.28.103 effective 12/1/2002	

<b>Authority:</b> 730 ILCS 5/3-2-2	<b>Related ACA Standards:</b> 5-ACI-1B-03, 07,08, 11, 13, 14
<b>Referenced Policies:</b> 02.70.105	<b>Referenced Forms:</b>

#### **I. POLICY**

The Department shall capitalize and properly record in the General Ledger and the property control system all capital projects in accordance with the guidelines established in this directive.

#### **II. PROCEDURE**

##### **A. Purpose**

The purpose of this directive is to establish specific criteria for determining those projects that shall be capitalized in accordance with instructions from the Office of the Comptroller and the procedures for preparing the General Ledger entries.

##### **B. Applicability**

This directive is applicable to all facilities within the Department.

##### **C. Facility Reviews**

A facility review of this directive shall be conducted at least annually.

##### **D. Definitions**

Additions – projects that increase the quantity of fixed assets.

Capital projects – includes additions and improvements for which the cost of the project is \$5000 or more and extraordinary repairs for which the cost is \$25,000 or more.

Improvements – projects that increase the quality of existing fixed assets.

Repairs – projects that improve the efficiency or extend the life of fixed assets.

Replacements – components that take the place of previous components of fixed assets but do not improve the efficiency or extend the life of existing fixed assets.

##### **E. General Provisions**

1. The costs for each capital project of \$25,000 or more shall be capitalized including those capital projects where facility labor and materials or labor of individuals in custody were used.

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2. Costs included for capitalization are those necessary to get the asset in place and ready for its intended use. Examples include, but shall not be limited to, the following:
  - a. Invoice price;
  - b. Transportation or freight charges;
  - c. Installation charges; and
  - d. Delinquent real estate taxes assumed by the State.
3. Costs for additions or improvements of less than \$25,000 for repairs or replacements, regardless of cost, shall not be capitalized. All such costs shall be charged as expenses.
4. Individual capital projects of \$25,000 or more shall be posted to the automated Property Control System with a unique number. Each capital project shall have a unique tag number. The date of the project shall be the date the project was substantially completed.

**F. Requirements**

1. Costs of local projects which are expected to satisfy the requirements for capitalization shall be accumulated in a General Ledger asset account entitled "Construction In Progress."
2. A separate Construction in Progress account shall be maintained for each project and identified by the Project Number assigned by the Capital Programs Unit or the In-House Project Number.
  - a. The journal entry shall be accomplished by debiting the Construction in Progress account and crediting the appropriate expense accounts.
  - b. These entries shall be posted to the General Ledger on a monthly basis.
3. When a capital project has been completed and all expenses associated with the project have been posted to the Construction in Progress account, the following entries shall be posted to the General Ledger:
  - a. Debit: Unit of Capitalization (Asset Account)
  - b. Credit: Construction in Progress
4. The completed capital project shall be posted to the Property Control System. Projects resulting in a new asset shall be assigned a unique tag number in accordance with Administrative Directive 02.70.105.
5. When projects for which the original estimate of cost did not satisfy the requirements for capitalization result in sufficient costs for capitalization, the following General Ledger entries shall be prepared, as appropriate:
  - a. When the project is capitalized during the same fiscal year that costs were incurred, the following entries shall be posted to the General Ledger:
    - (1) Debit - Appropriate Asset Account
    - (2) Credit - Expense accounts previously charged
  - b. When costs to be capitalized were incurred in a prior fiscal year, the following entries shall be posted to the General Ledger:

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(1) Debit - Appropriate Asset Account

(2) Credit - State of Illinois Net Worth

c. When a portion of the costs to be capitalized were incurred during a prior fiscal year(s) and the remainder during the current fiscal year, the following entries shall be posted to the General Ledger:

(1) Debit - Appropriate Asset Account

(2) Credit - Expense Account(s) charged during the current fiscal year.

(3) Credit - State of Illinois Net Worth - for the sum of costs expensed in prior year(s).

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