

SECTION 15.0 – CAPITAL ASSETS

15.1 Introduction

This chapter sets forth College policy pertaining to the acquisition, management and oversight of capital assets. These policies are designed to assist in the management, maintenance, record keeping, control and disposition of such assets.

15.2 Definitions

Generally, capital assets are defined as property, plant and equipment and include land, buildings, improvements, and may include intangible assets.

- a. Land - Real property and includes attached natural or artificial structures.
- b. Buildings - Structures which provide a work place, storage space, or are used in some other way for College activities.
- c. Improvements or Betterments - Significant physical alternations to facilities. Improvements or betterments do not increase the physical size of the asset. Instead, they may enhance the efficiency (i.e., increased capacity, lower operating costs) or prolong the life of the property.
- d. Equipment - All moveable, tangible College property (i.e., furniture, unlicensed vehicles, audio and video equipment, typewriters, computers and machinery).
- e. Intangibles - Assets which lack physical substance but give valuable rights to the College (i.e., patents, copyrights, and license agreements).

15.3 Method of Acquisition

15.3.1 Purchase

Purchasing authority is set forth in Sections V-1, V-2 and V-3 above.

15.3.2 Lease\Installment Purchases

Installment purchase contracts are agreements with vendors to acquire property in exchange for a commitment to make specified future payments. Following are definitions of the various types of lease\installment purchases:

- Straight Lease or Rental Contract - A written contract executed by the College (lessee) and another party (lessor) containing the essential terms and conditions for the use or possession of property by the College in exchange for scheduled payments of specific amounts of money during the life of the contract. At the end

of the contract, the property is returned to the lessor in a condition and at a place as agreed to by the parties. The title remains with the lessor.

- Lease Contract with a Purchase Option - A written contract executed by the College (lessee) and another party (lessor) containing the essential terms and conditions for the use or possession of property by the College in exchange for scheduled payments of specific amounts of money during the term of the contract. The College has the option to purchase the property either during the life of the lease or at its expiration. All or a portion of the lease payments may apply toward the purchase of the property as provided in the contract. Title remains with the lessor until the purchase option is exercised.
- Installment Purchase Contract - A written contract executed by the College (buyer) and another party (seller) containing all the terms and conditions for the acquisition of property by means of scheduled installment payments of specific amounts of money during the life of the contracts. Title either (a) remains with the seller until the total contract amount has been paid, but the College has the right to use and take possession of the property during the life of the contract or (b) is conditionally transferred to the College, subject to payment in full.

If a lease meets the current market value described in item a below, and one of the following conditions, it is considered to be a capital lease and should be accounted for properly:

- a. The leased asset has a current market value (current cash purchase price) of \$10,000.00 or more and one of the following;
- b. Ownership of the leased asset is transferred to the lessee (College) at the end of the lease period;
- c. The lease provides the option of purchasing the leased asset at less than fair market value (bargain purchase option) at some point during or at the end of the lease period;
- d. The period of the lease is 75% or more of the estimated useful life of the leased asset;
- e. The present value of the minimum lease payments are 90% or more of the fair market value of the leased asset.

15.3.3 Gifts

The *Development Policy and Administrative Manual*, Section V.C., governs the acquisition of assets acquire from private donations.

15.4 Criteria for Capitalization

Capital assets shall be capitalized when certain conditions are met. Capitalization means to record the asset in the accounting and property records of the College and to maintain accountability of the asset until disposition. Both tangible and intangible assets may be capitalized.

15.4.1 Tangible Assets

Tangible assets must meet all of the following criteria in order to be capitalized:

- a. Have a normal useful life of more than one year;
- b. Have a unit acquisition cost of at least \$2,500 (i.e., five identical assets which cost \$500 each, for a total of \$2,500, would not meet the requirement);
- c. Be used to conduct College business.

Tangible assets not meeting these criteria shall be recorded as supplies or non-inventorial equipment.

15.4.2 Intangible Assets

Intangible assets must meet all of the following criteria in order to be capitalized:

- a. Have an expected useful life of at least three years;
- b. Have a cost of at least \$5,000.00;
- c. Be used to conduct College business.

Intangible assets not meeting these criteria will be recorded appropriately as current year expenditures.

15.5 Determination of Capitalized Costs

Generally, the capitalized cost include all costs incurred in connection with the asset's acquisition which may include: purchase price, freight, installation costs, sales, excise or other applicable taxes, legal fees and other costs required to prepare the asset for its intended use.

Under a Lease Contract with a purchase option and an installment purchase contract the present value of the asset is the amount to be capitalized.

15.5.1 Land

Related costs include purchase price plus legal and title fees, title search costs and all costs incurred in preparing the land for its intended use (i.e., grading, surveying, filling, draining and demolition costs).

15.5.2 Buildings

Related costs include purchase price plus all other costs incurred to put the building in condition for its intended use which include preliminary costs such as site clearance, blueprints, plans, and advertising for bids; architects' and engineers' fees and costs; construction costs such as general construction, heating, ventilating, electrical and mechanical work.

15.5.3 Improvements or Betterments

Related costs associated with improvements or betterments. Examples of improvements or betterments include parking lots, office alterations, roofs, elevator upgrades and lighting systems.

15.5.4 Equipment

Related costs include purchase price, freight, taxes, installation and all costs to prepare the equipment for its intended use.

15.5.5 Software

Related costs include the purchase price, installation and all consulting costs, including that related to employee training, to prepare the software for its intended use.

15.5.6 Intangibles

Related costs include purchase price, legal fees and other costs incurred to obtain title to the asset. If developed internally, associated development costs may also be capitalized.

15.5.7 Gifts

The *Development Policy and Administrative Manual*, Section V.G.5., Authorized Signature, governs the determination of the value of donated assets.

15.6 Accounting

The Office of Fiscal Services is responsible for the record keeping and proper disclosure of the College's assets. This section defines the object codes established to record capital assets.

- Land - to be established upon acquisition;
- Buildings - to be established upon acquisition;
- Donated Assets - object code (4350)1870;
- Intangible Assets - to be established upon acquisition;
- Capital Equipment - object code (5811) 1850;
- Capital Furniture – object code (5811) 1855;
- Capital Software – object code (5220) 1859
- Building Improvements - object code (5813) 1830.

The initial purchase of these assets are recorded as operating expenses (the object code denoted parenthetically) and semi-annually reclassified as non-current capital assets in Invested in Capital Assets, Net of Related debt, net assets.

- Capital Lease (asset)
 - Capital Lease, Equipment - object code 1851;
 - Capital Lease, Building - to be established upon acquisition;
 - Capital Lease, Land - to be established upon acquisition;
- Lease Payable (liability)
 - Capital Lease Payable, Equipment - object code 2120;
 - Capital Lease Payable, Building - to be established upon acquisition;
 - Capital Lease Payable, Land - to be established upon acquisition.

The monthly payments pertaining to capital lease agreements are initially recorded as operating expenses and reclassified at semi-annually as a capital lease asset and liability.

Non-capital assets will be recorded as expenditures (object code 5370) or non-inventorial equipment (object code 5812) at the time of their receipt. These transactions are generally recorded as operating expenses unless associated with a capital project and then may be capitalized as part of the capital project.

Semi-annually, before any assets are capitalized, Fiscal Services will reconcile the capital purchases and donations with the equipment inventory system to ensure all capital items have been identified and properly accounted for.

15.7 Assets Not Capitalized

The following expenditures are not capitalized but recorded as expenditures.

- a. Repairs and Maintenance - Repairs refer to normal, regularly recurring repairs to keep the property in an efficient operating condition, neither adding to the value of the property nor appreciably prolonging its life.
- b. Replacements - Replacement of component parts of buildings or structures, which do not significantly lengthen the life of the entire asset.
- c. Straight Lease or Rental Contracts - Use of property under the terms of a straight lease or rental contract.
- d. Supplies - Supplies include office and other supplies, which do not meet the capitalization criteria described in the section Criteria for Capitalization.

15.8 Library Books

15.8.1 Introduction - This section of the Manual establishes the policy for the valuation and capitalization of the library's collection.

15.8.2 Base Valuation - In August 1995, Valuation Resource Management, Inc. (VRM) developed a cost valuation of the library collection. The valuation was based upon historical records from 1970 provided by the library staff. Items included in the cost valuation were: bound volumes, microfiches, microfilm subscriptions, reels, etc. The assets were not physically inspected. With the exception of binding costs, processing costs, those required to process the collection (employee salaries and benefits, etc.) were not included in the base valuation cost.

The estimated dates of acquisition and estimated original costs were developed from the historical records provided by the College and by using accepted appraisal costing techniques by relating current cost of new reproduction to historical cost of reproduction. VRM provided an estimated original cost of the collection at June 30, 1995 to be \$10,650,076¹, adjusted for loose-leaf services and fill-ins/replacement costs.

In fiscal year 1995/96, a prior year fund balance re-statement of \$7,037,669 was made to reflect the original cost value of the library collection as of June 30, 1995. This adjustment was validated by the College's independent auditors, Hood and Strong².

15.8.3 Subsequent Valuation Method - The College will make collection valuation adjustments, subsequent to June 30, 1995, based upon the cost-based method³. This method was also used for valuation adjustments for fiscal years ending 1996 and 1997. This method combines actual purchase expenses and the fair market value of gifts or donations of materials to the collection.

15.8.3a - Reporting – Semi-annually, the Library staff will provide Fiscal Services with an accounting report reflecting, in total, actual expenditures on collection holdings. In addition, this report will include the estimated cost of lost or disposed items. This report, reconciled to the general ledger, will serve as the basis for the valuation adjustment to the collection to reflect current year activity.

15.8.3b Additions - Collection items to be included in the annual valuation adjustment include:

¹ Certification letter from William N. Jaeger, ASA; President, Valuation Resource Management; September 15, 1995.

² Letter from Hood and Strong Audit Partner, John R. Jeffords to Chief Financial Officer David Seward, July 24, 1996.

³ Recommended by NACUBO; Financial Accounting and Reporting Manual for Higher Education, September 1990.

- 1) Books, New Titles
- 2) Continuations, New Subscriptions
- 3) Continuations, Bound Volumes
- 4) Continuations, Unbound and Upkeep Services
- 5) Continuations, Periodical Subscriptions
- 6) Continuations, Audio Cassettes
- 7) Continuations, Microform, Microfiche, Reel Subscriptions
- 8) New Titles and Subscriptions, Laser Disks
- 9) Binding Costs

Although actual processing costs can be included, these costs will be excluded from the valuation calculation.

15.8.3c Disposal - The destruction or withdrawal of library materials at the current market rate may result in an unfair valuation adjustment. In such cases, it is recommended that the value withdrawn be determined based upon an average or estimated cost of the item.

15.8.4 Accounting Entry - The following accounting entry is made semi-annually to record net capital additions to the library collection:

Debit: Library Books	56-10000-1860
Credit: Capital Purchase Offset	56-10000-5848

15.8.5 Responsibility - It is the responsibility of the Fiscal Office to advise the library staff of any changes in the method of reporting, to arrange for timely receipt of accounting reports necessary to prepare the annual valuation adjustment and to record the value of the collection at the end of each fiscal year.

It is the responsibility of the Library to maintain accurate and timely acquisition and disposal records to ensure the timely submission of the accounting report at the end of each fiscal year.

15.9 Capital Outlay Projects

This section establishes the policy for the valuation and capitalization of those projects funded through the State's Capital Outlay Program. This section of the manual has yet to be determined.

15.10 Management

Management and control of capital assets is primarily the responsibility of the Purchasing and Fiscal Services Offices. However, because physical control of assets is decentralized among campus departments, each Department Manager is accountable for those assets provided for their use.

15.10.1 Office of Fiscal Services

Fiscal Services is responsible for the record keeping and maintenance of all transactions relating to capital assets. Refer to the Accounting section for more information.

15.10.2 Purchasing Department

The Purchasing Department is responsible for maintaining the equipment inventory control system and identifying (tagging) College assets.

- a. Inventory Control System - Information maintained in the inventory control system should include: date acquired, asset description, identification number, cost or other basis of valuation, vendor, purchasing department, cost center, steward, purchase order and contract number if applicable.
- b. Tagging - All College assets will be tagged upon their receipt and includes items which may or may not meet all of the College's capitalization requirements (i.e., digital cameras, personal digital assistant (PDAs), laptops, printers, scanners, typewriters, computers, tools, or other assets deemed appropriate by the Chief Financial Officer). When feasible, property tags should be placed on the front of the item in clear view. Invoices for capital purchases will not be paid until the asset tag has been affixed to the asset.

Periodically, Purchasing and Fiscal Services will coordinate, with Department Managers, a physical count of the College's equipment inventory.

14.11 Depreciation

Effective with the Government Accounting Standards Board (GASB) Statements No. 34 and No. 35, the College is required to record depreciation for the fiscal year beginning July 01, 2002.

Depreciation is the annual charge to income (as a non-cash expenditure) that results from a systematic and rational allocation of the cost of a capital asset over its life. Through a depreciation method the cost of the asset is allocated to the periods they benefit.

The College will use the Straight-Line method of depreciation. This is an acceptable method of calculating depreciation expense evenly over the life of the asset. Reducing the salvage value of an asset from its original cost and dividing that figure by the useful life of the asset make this calculation. Exhibit Z, Useful Life Schedule for Capital Assets, will serve as the guideline for determining the useful life of an asset for the purposes of calculating depreciation.

Depreciation will be recorded on all assets of the College including those purchased from State and non-state funds, the 1066 Foundation, the Alumni Association, and registered student organizations. Assets purchased with federal and private grants will also be depreciated unless specified otherwise in the respective agreement.

The Office of Fiscal Services is responsible for calculating and recording depreciation. This process is generally performed semi-annually and is a function of the College's inventory management system.

Depreciation expense and accumulated depreciation will be recorded separately for McAllister Tower and for the State.

14.12 Disposal

College policy for disposing of equipment is set forth in Section X, above.

15.13 Capital Asset Impairment

a. Definition

[Governmental Accounting Standards Board \(GASB\) Statement No. 42](#), ¶5 defines asset impairment as “a significant, unexpected decline in the service utility of a capital asset.” The events or changes in circumstances that lead to impairments are not considered to be normal and ordinary. That is, at the time the capital asset was acquired, the event or change in circumstance would not have been expected to occur during the useful life of the asset.

GASB 42 allows for the testing of capital asset impairment by determining whether both of the following factors are present:

1. The magnitude of the decline in service utility is significant *and*
2. The decline in service utility is unexpected.

GASB Statement No. 42, paragraph, ¶21 outlines the appropriate financial reporting treatment for insurance recoveries.

b. Policy

Annually, the College should undertake an evaluation of assets to determine if they have been impaired. Staff should be guided by GASB 42 when conducting a test of capital asset impairment. If it is determined that assets were impaired, the impairment should be measured, recorded, and disclosed. Staff will also follow the guidelines in GASB 42 when insurance recoveries related to capital assets are received. Such recoveries are netted against the impairment loss.

c. Responsibility

The Controller's office is responsible for conducting the annual evaluation to reveal if asset impairments or possible asset impairments are present.

d. Procedures

This section provides a general guideline for College staff of the procedures that should be performed to determine capital asset impairment.

i. Capital Asset Impairment

The annual evaluation to determine capital asset impairment should include the following steps:

1. Identify “potential” impairments.
2. Perform tests for impairment.
3. Measure the impairment (based upon historical cost).
4. Record and report the impairment loss.
5. Disclose the impairment loss.

ii. Insurance Recoveries Related to the Impairment of Capital Assets

Insurance recoveries should be recognized only when they are realized or realizable. In general, the steps to record insurance recoveries related to capital assets are:

1. Record the impairment loss as an operating expense when no recovery is received in the same year. The loss and recovery may be recorded in Other Changes in Net Assets in the unlikely event it qualifies as either special or extraordinary.
2. Record the impairment loss net of recovery as an operating expense, when the loss and recovery occur in the same year.
3. Record the recovery as nonoperating income, if the recovery occurs in a subsequent year.
4. Record the recovery in the Statement of Cash Flows as “Proceeds from Insurance Recovery” in the Capital and Related Financing Activities Section (GASB Statement No. 9, ¶21c).