Capital Asset Guide

New Mexico State University

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Executive Summary

This Capital Asset Guide is presented for the benefit of New Mexico State University's accounting and business managers, the Office of Facilities and Services, external and internal auditors and the University's customers and peers. This guide is meant to augment the procedures found in the Business Procedures Manual, which can be located at the following link: http://www.nmsu.edu/~boffice/bpm_2009/BPM_2009.html.

NMSU uses the straight-line method of depreciation (capitalized cost divided by useful life) for the following capital assets with the designated useful life and dollar thresholds:

Class of Asset	Useful Life	Threshold
(1) Land/Land Improvements	N/A	Land-$1, Improvements - $50,000
(2) Buildings/building improvements		$100,000
Floor Cover	12	
Construction Interior and Roof Cover	20	
Heating Ventilation AC and Lighting Electrical	21	
Elevators, Fire Protection and Piping, Plumbing	23	
Site Preparation	25	
Walls Exterior	30	
Floor Structure, Foundation, Roof Structure, Steel Frame	50	
Infrastructure		$50,000
Paving Systems	12	
Communications	10	
Utility/Other/Landscaping/Ext. Lighting	20	
Equipment		$5,000
Short Service Life	6	
Long Service Life	15	
Library Books (Collections)	15	N/A
(1)Works of Art/Historical Treasures	N/A	N/A
Software (purchased or developed)		
Minor	5	$5,000
Major	10	$10,000
Leasehold Improvements	Duration of Lease	$50,000
Construction Work in Progress (CWIP)	N/A	(3) Capitalize to appropriate category when completed / or placed into service.

(1) Land, Land Improvements, Works of Art and Historical Treasures are considered inexhaustible and are not depreciated.
(2) If the Facilities Space Management office assigns a building number to any structure, there is no capitalization threshold.
(3) If accrued expenditures total 90% of the budgeted project cost, then CWIP reported in prior years will be capitalized to the appropriate asset category.

NMSU hired a consulting firm, Hirons and Associates, to complete a componentization study of existing buildings and infrastructure and to build a database to calculate depreciation which will be used for the F&A rate and the financial statements. Hirons and Associates maintains the database and provides depreciation expense and accumulated depreciation amounts to NMSU.

1. Introduction

Effective July 1, 2001, NMSU was required to implement Governmental Accounting Standards Board (GASB) Statement No. 34 and No. 35, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments and Public Colleges and Universities. The new reporting model required depreciation expense to be reported in the financial statements for all depreciable assets.

Included in this guide are asset category definitions, capitalization thresholds, depreciation methodologies, and examples of expenditures for each class of assets. Guidelines for leasehold improvements and construction in progress are also included. The book value of all capital assets is recorded in a single fund by branch. This segregation is primarily for location and physical inventory purposes. The general fund numbers and asset account codes are as follows:

Investment in Plant Fund	Account Codes
189000 – Las Cruces (Main) Campus	118100 – Land
289000 – Alamogordo Branch Campus	118200 – Buildings
389000 – Carlsbad Branch Campus	118300 – Building Fed Share
489000 – Dona Ana Branch Campus	118400 – Improvements other than Buildings
589000 – Grants Branch Campus	118450 – Pavement Systems
789000 – Physical Science Laboratory	118500 – Improvements Other Than Bldg-Fed Funds
	118600 – Equipment
	118610 – Equipment Federal Title
	118620 – Equipment State Title
	118630 – Equipment Private Title
	118650 – Accumulated Depreciation
	118900 – Library Books
	118950 – Software

Capital project expenditures must be recorded in the plant fund (Unexpended or Renewal and Replacement) in order for capitalization to occur. Available capital expenditure account codes are as follows:

Purpose	Account Codes
Land Acquisition	782100 - Land
Demolition of buildings, infrastructure, grading, etc. of newly acquired property	782110 - Site Preparation
Internal project management fees incurred by Office of Facilities and Services (OFS) or Facilities, Planning and Construction (FPC)	782450 - PPD Project Admin Fee
Design and blueprints prepared by an independent architect or engineering firm or project/construction management services	782500 - External Architect Engineer Inspection
Capital construction projects of buildings or infrastructure assets completed internal forces	782600 - PPD Construction
Capital construction projects conducted by an independent construction company	782700 - Construction External Contractor
Initial modular office systems, divider walls, elevator improvements, alarm systems, electrical and communication upgrades within an owned existing building structure	782800 - Miscellaneous Buildings
Installation of water, gas and sewer lines, tunnels, external lighting, communication networks outside of a building structure	782900 - Utilities
Re-roof, repave, structural renovation of owned and existing buildings and infrastructure	783300 - Major Repairs and Renovations
Rechanneling of drainage networks, improvements to land	783500 – Land Improvements

2. Depreciating Capital Assets

Capital assets are depreciated over their estimated useful lives unless they are inexhaustible. Depreciation expense is calculated and stored by the property management system for equipment, and software; calculation of depreciation for library books is performed manually by Cost Accounting and Reporting; Hiron and Associates maintains depreciation data for infrastructure and buildings. A full year depreciation amount will be taken for every asset class regardless of the day during the fiscal year when the asset is placed into service. Accumulated depreciation will be summarized and posted electronically by the property management system to the accounting general ledger. The account code used to record depreciation expense is 750800 and the accumulated depreciation account code is 118650.

Leasehold Improvements Depreciation Methodology

Leasehold improvements are capitalized by the lessee and are amortized over the shorter of (1) the remaining lease term, or (2) the useful life of the improvement. Expenditures for constructing the improvements should be charged to a fund within the plant fund and to an account code in the 782xxx or 783xxx series. Improvements made in lieu of rent should be expensed in the period incurred and charged to account code 753xxx. If the lease contains an option to renew and the likelihood of renewal is uncertain, the leasehold improvement should be written off over the remaining life of the remaining lease term or useful life of the improvement, whichever is shorter.

3. Definitions

Capital assets are classified as real or personal property that have a value equal to or greater than the capitalization threshold for the particular classification of the asset and have an estimated life of one year or more.

Acquisition Cost - Assets should be recorded and reported at their historical costs, which include the vendor's invoice (plus the value of any trade-in or allowance, if reflected on the invoice), plus sales tax, initial installation cost, modifications, attachments, accessories or apparatus necessary to make the asset usable and render it into service. Historical costs also include ancillary charges such as freight and transportation charges, site preparation costs and professional fees.

Additions and Improvements - Capital outlays that increase the capacity, the useful life or efficiency of the asset. A change in capacity increases the level of service provided by an asset. For example, additional lanes can be added to a highway or the weight capacity of a bridge could be increased. A change in efficiency maintains the same service level, but at a reduced cost. For example, a heating and cooling plant could be reengineered so that it produces the same temperature changes at reduced cost.

Assets Held in Trust - Capital assets held by NMSU on behalf of a non-university entity (such as art collections owned by families, estates and others) and that are under the temporary control of NMSU should be recorded as assets held for others by the Foundation until returned to the owners.

Assets Owned by the Federal Government - Capital assets that have been loaned to the university or acquired and charged to a federal award should be recorded per the guidelines in section 1C.05.45 of the Business Procedures Manual (BPM), which can be found at the following web-site: http://www.nmsu.edu/~boffice/bpm_2009/BPM_2009.html.

Building - A structure that is permanently attached to the land with a foundation, has a roof, is partially or completely enclosed by three walls, has one utility other than electricity and is not intended to be transportable or moveable, which is used for housing people, animals, plants or equipment. The capitalized value of buildings and building improvements is recorded in account code 118200, or 118300 if federal funds were used in the construction of the building or building improvement. Equipment permanently affixed to buildings should be included as part of the building.

Class B = non-bearing curtain walls, masonry, concrete, metal and glass panels, stone

Class D = almost any material except masonry or concrete; generally combustible construction

Building Improvements - Capital costs that increase the value of a building. A building improvement should be capitalized as a betterment and recorded as an addition of value to the existing building if the expenditure for the improvement is at the capitalization threshold. The depreciable life of the improvement is calculated separately from the original building cost.

Computation of Gain or Loss from Sale of Assets

To compute a gain or loss, proceeds received must be subtracted from the asset's net book value and in accordance with federal regulations.

Example:	Asset's Historical Cost	$	10,000
	Less Accumulated Depreciation		(7,000)
	Net Book Value	$	3,000
	Subtract Proceeds Received		(2,000)
	Loss from Sale of Asset	$	1,000

Computer Software - Colleges and universities are now required by the National Association of College and University Business Officers to adopt the American Institute of Certified Public Accountants (AICPA) Statement of Position 98-1, Software Developed or Obtained for Internal Use (SOP 98-1). The requirements of this document are effective for all higher education institutions for fiscal years beginning June 15, 1999, with earlier application recommended. Minor software purchases are defined as purchases between the cost of $5,000 and $9,999 dollars and are depreciated over five years. Major software purchases are defined as purchases over $10,000 or more and are depreciated over 10 years. The book value of capitalized software is recorded in account code 118950.

Internal Use Software - For software to be considered for internal use, the software must meet the following tests - it must be acquired, internally developed or modified solely to meet the university's internal needs, and during the software's development or modification, the university must not have a substantive plan to market the software externally to other organizations.

Capitalization of Software Costs - Software implementation generally involves three phases. These phases and their characteristics are as follows:

1. Preliminary project phase - when conceptual formulation of alternatives, the evaluation of alternatives, a determination of existence of needed technologies and the final selection from among the alternatives is made.

2. Application development/implementation phase - Design of chosen path including software configuration and software interfaces, coding, installation of computer hardware, testing, including parallel processing phase, costs of training, employee and consultant travel expenses and consultant fees.

3. Post-implementation/operation phase - training and application maintenance activities incurred after phase two is complete.

Costs associated with the preliminary project and the post-implementation/operating phases should be expensed as incurred. Internal and external costs associated with the application development phase should be capitalized. Costs to develop or obtain software that allows for access or conversion of old data by new information systems should also be capitalized. General and administrative costs and overhead expenditures associated with software development should not be capitalized as costs of internal use software.

Capitalization of costs should begin when the preliminary project phase is complete and the university's management has implicitly or explicitly authorized or commits to funding the software project with the intent it will be completed and used to perform its planned functions. Capitalization should cease no later than the time at which substantial testing is complete and the software is ready for its intended purpose or rendered in service.

<u>Construction Work in Progress (CWIP)</u> - The economic construction activity status of buildings and other structures, infrastructure (highways, energy distribution systems, pipelines, etc.), additions, alterations, reconstruction, installation, and maintenance and repairs, which are substantially incomplete. The account code to record CWIP is 118500.

<u>Donated Assets</u> - Donations are defined as voluntary contributions of resources to a governmental entity by an external entity. Donations should be reported at fair market value at the time of acquisition plus ancillary charges, if any. Fair value equals the amount at which an asset could be exchanged in a current transaction between willing parties.

Effective September 1, 2001, governmental funds will have to meet the standards of GASB Statement No. 33. Donations must be recorded and reported at fair value on the date of acquisition based on a reasonable market study. Recipients of donated capital assets will recognize the donation and related revenue when the transaction is complete and the assets are received, providing all eligibility requirements have been met. Promises of capital asset donations should be recognized as receivables and revenues (net of estimated uncollectible amounts) when all applicable eligibility requirements have been met, providing that the promise is verifiable and the resources are measurable and probable of collection.

In some cases, donated capital assets are given with the stipulation (time requirement) that the assets cannot be sold, disbursed or consumed until a specified number of years have passed or a specific event has occurred. For such cases, the capital asset should be reported in the statement of Net Assets as “Net Assets -- Restricted” as long as the restrictions or time requirements remain in effect.

<u>Equipment</u> - Movable tangible assets to be used for operations, the benefits of which is one year or more from the date of acquisition and placed into service. Improvements or additions to existing equipment that constitute a capital outlay or increase the value or life of the asset, which has an acquisition cost of $5,000 or more, should be capitalized as a betterment and recorded separately, but shown as an attachment or component of the existing asset. The book value of University owned equipment is recorded in account code 118600. The University will record in the property management system equipment in the control of the University but owned by the federal (118610) or state government (118620) or a private entity (118630). Generally, capital equipment that is technical or electronic in nature and subject to functional obsolescence is assigned a useful life of six years. Capital equipment that is mechanical in nature is assigned a useful life of 15 years.

Jointly Funded - The property records will reflect the source of funds for equipment paid for jointly by the university and an external entity.

Leased Equipment – Leased equipment should be capitalized and have a bar-code label affixed to the equipment if the lease agreement meets any one of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains a bargain purchase option.

- The lease term is 75 percent or more of the estimated economic life of the leased property.
- The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90 percent of the fair value of the leased property.

Monthly capital lease payments are charged to account code 780910. Leases that do not meet any of the above requirements should be recorded as an operating lease and the monthly lease payments are charged to account codes in the 753xxx series.

Exhaustible Collections or Items - Items whose useful lives are diminished by display or educational or research applications and are depreciated.

Inexhaustible Collection or Items – Items who's economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long. Because of their cultural, aesthetic, or historical value, the holder of the asset applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value. These assets are not depreciated.

Infrastructure - Assets that are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Infrastructure assets are often linear and continuous in nature. NMSU's four infrastructure subsystems are:

1. Pavement Systems (recorded in account code 118410)
2. Communications Systems (recorded in account code 118400)
3. Utilities (recorded in account code 118420)
4. Other (recorded in account code 118430)

Infrastructure Improvements - Capital events that materially extend the useful life or increase the value of the infrastructure, or both. Infrastructure improvements should be capitalized as a betterment and recorded as an addition of value to the infrastructure if the improvement or addition of value is at the capitalization threshold or increases the life or value of the asset by 25 percent of the original cost or life period.

Infrastructure Modified Approach - The modified approach is an alternative to reporting depreciation for infrastructure assets that requires an asset management system, documentation that assets are being preserved at or above a condition level established by the government and depreciation is not reported. NMSU will depreciate capital assets rather than follow the modified approach.

Jointly Funded Infrastructure - Infrastructure paid for jointly by the State and other governmental entities should be capitalized by the entity responsible for future maintenance.

Maintenance Costs – Costs that allow an asset to continue to be used during its originally established useful life, and should be expensed in the period incurred.

Preservation Costs – Costs that are generally considered to be those outlays that extend the useful life of an asset beyond its original estimated useful life, but do not increase the capacity or efficiency of the asset. Preservation costs should not be capitalized unless the original cost can be determined and the value written off along with the accumulated depreciation. The preservation cost will be depreciated over the appropriate useful life.

<u>Land</u> - The surface or crust of the earth, which can be used to support structures, and may be used to grow crops, grass, shrubs, and trees. Land is characterized as having an unlimited life (indefinite) and is not depreciated. Donated land is recorded at the fair market value on the date of the donation. The book value of land is recorded in account code 118100.

<u>Land Improvements</u> - Betterments, site preparation, and site improvements (other than buildings and infrastructure) that ready land for its intended use. The costs associated with improvements to land are added to the cost of the land and are not depreciated. The account code used to record the value of land improvements is 118110.

<u>Leasehold Improvements</u> - Construction of new buildings or improvements made to existing structures by the lessee, who has the right to use these leasehold improvements over the term of the lease. These improvements will revert to the lessor at the expiration of the lease. Moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement. See Section 2 – "Leasehold Improvements Depreciation Methodology." Expenditures for leasehold improvements should be charged to account codes within the series of 782xxx and 783xxx and recorded in the plant fund. The capitalized costs should be recorded in account 118200 for buildings (118300 if the federal funds were used) and 118400 for infrastructure (118450 if federal funds were used).

<u>Library Books and Materials</u> - Library books are generally a literary composition bound into a separate volume and identifiable as a separate copyrighted unit. Library reference materials are information sources other than books which include journals, periodicals, microforms, audio/visual media, computer-based information, manuscripts, maps, documents, and similar items which provide information essential to the learning process or which enhance the quality of academic, professional or research libraries. Changes in value for professional, academic or research libraries may be reported on an aggregated net basis. Account code 118900 is designated for recording the book value of library books.

Other Improvements - Depreciable improvements made to a facility or to land that should be capitalized as betterments if the improvement is at the capitalization threshold or the expenditure increases the life or value of the asset by 25 percent of the original cost or life period.

Sale of Capital Assets – When an asset is sold to a non-state entity or another state agency, a gain or loss must be recognized in the annual report when:

- cash is exchanged and the amount paid does not equal the net book value of the asset
- cash is not exchanged and the asset is not fully depreciated or has a residual value

A gain or loss is not reported when:

- cash exchanged equals the net book value and the asset does not have a residual value
- cash is not exchanged and the asset is fully depreciated and has no residual value

Trade-in of Assets - Similar assets – surplus or salvage property can be offered as a trade-in on new property of the same general type if the exchange is in the best interest of the university.   When recording a trade-in of similar assets, NMSU must use a book value basis for the assets surrendered or acquired.

When assets are exchanged and no monetary consideration is paid or received, the cost of the asset acquired is recorded at the carrying (book) value of the asset surrendered. Where monetary consideration is given, the new asset must be recorded at the sum of the cash paid plus the book value of the asset surrendered.

Dissimilar assets - when recording a trade-in of dissimilar assets:

- record the value of the asset being traded and the resulting transaction for acquiring the new asset, using the fair value of the asset being traded
- if cash is used to purchase the asset, NMSU must record the transaction for the new asset as cash paid plus the fair value of the asset surrendered

Works of Art and Historical Treasures - collections or individual items of significance that are owned by the university which are not held for financial gain, but rather for public exhibition, education or research in furtherance of public service. Collections or individual items that are protected and cared for or preserved and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. See “Exhaustible” and “Inexhaustible” definitions.

4. Examples of Expenditures to be Capitalized

Buildings:

Purchased Buildings

- Original purchase price
- Expenses for remodeling, reconditioning or altering a purchased building to make it ready to use for the purpose for which it was acquired
- Environmental compliance (i.e., asbestos abatement)
- Professional fees (legal, architect, inspections, title searches, etc.)
- Payment of unpaid or accrued taxes on the building to date of purchase
- Cancellation or buyout of existing leases
- Other costs required to place or render the asset into operation

Constructed Buildings

- Completed project costs
- Interest accrued during construction
- Cost of excavation or grading or filling of land for a specific building
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of building permits
- Professional fees (architect, engineer, management fees for design and supervision, legal)
- Unanticipated costs such as rock blasting, piling, or relocation of the channel of an underground stream
- Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
- Additions to buildings (expansions, extensions, or enlargements)

Building Improvements:

Note: For a replacement to be capitalized, it must be a part of a major repair or rehabilitation project, which increases the value, and/or useful life of the building, such as renovation of a student center. A replacement may also be capitalized if the new item/part is of significantly improved quality and higher value compared to the old item/part such as replacement of an old shingle roof with a new fireproof tile roof. Replacement or restoration to original utility level would not. Determinations must be made on a case-by-case basis.

- Conversion of attics, basements, etc., to usable office, clinic, research or classroom space
- Structures attached to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.
- Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents

- Original installation/upgrade of wall or ceiling covering such as carpeting, tiles, paneling, or parquet
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing
- Installation or upgrade of window or door frame, upgrading of windows or doors, built-in closet and cabinets
- Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
- Exterior renovation such as installation or replacement of siding, roofing, masonry, etc.
- Installation or upgrade of plumbing and electrical wiring
- Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, wiring required in the installation of equipment (that will remain in the building).
- Other costs associated with the above improvements

Building Improvements to be Recorded as Maintenance Expense:

- Adding, removing and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building
- Improvement projects of minimal or no added life expectancy and/or value to the building
- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Interior decoration, such as draperies, blinds, curtain rods, wallpaper
- Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.
- Maintenance-type interior renovation, such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections; sink and fixture refinishing, etc.
- Maintenance-type exterior renovation such as repainting, replacement of deteriorated siding, roof, or masonry sections
- Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an old boiler with a new one of the same type and performance capabilities
- Any other maintenance-related expenditure which does not increase the value of the building

Equipment:

- Original contract or invoice price
- Freight charges
- Import duties
- Handling and storage charges
- In-transit insurance charges

- Sales, use, and other taxes imposed on the acquisition
- Installation charges
- Charges for testing and preparation for use
- Costs of reconditioning used items when purchased
- Parts and labor associated with the construction of equipment

Infrastructure:

- Communications Systems – fiber optic cabling, telephone distribution systems (between buildings), radio or television transmitting tower
- Pavement Systems – highways, roads, streets, curbs, gutters, sidewalks, fire hydrants, guard rails, parking lots, driveways, and parking barriers (if permanently affixed)
- Utilities – gas distribution systems, electric, water, gas (main lines and distribution lines, tunnels), chilled water, geothermal, septic systems
- Other – irrigation systems, street signage, light system (traffic, outdoor, street, etc.)

Land :

- Purchase price or fair market value at time of gift
- Commissions
- Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.)
- Land excavation, fill, grading, drainage
- Demolition of existing buildings and improvements (less salvage)
- Removal, relocation, or reconstruction of property of others (railroad, telephone and power lines)
- Interest on mortgages accrued at date of purchase
- Accrued and unpaid taxes at date of purchase
- Other costs incurred in acquiring the land
- Water wells (includes initial cost for drilling, the pump and its casing)
- Right-of-way

Land Improvements:

- Fencing and gates
- Landscaping
- Outside sprinkler systems
- Recreation areas and athletic fields (including bleachers)
- Golf courses
- Paths and trails
- Swimming pools, tennis courts, basketball courts
- Fountains
- Plazas and pavilions
- Retaining walls

Library Books and Materials:

- Invoice price
- Freight charges
- Handling
- In-transit insurance charges
- Binding
- Electronic access charges
- Reproduction and like costs required to place assets in service, with the exception of library salaries

Software - Application Development Phase:

- External direct costs of materials and services (third party fees for services)
- Costs to obtain software from third parties
- Travel costs incurred by employees in their duties directly associated with development
- Payroll and payroll-related costs of employees directly associated with or devoting time in coding, installing or testing
- Interest costs incurred during the application development

Works of Art and Historical Treasures:

- Collection of rare books, manuscripts
- Maps, documents and recordings
- Works of art such as paintings, sculptures, and designs
- Artifacts, memorabilia, exhibits
- Unique or significant structures