NASSAU COMMUNITY COLLEGE

POLICY 6600

CAPITALIZATION AND CONTROL OF ASSETS

Policy Category: Finance and Business Services
Area of Administrative Responsibility: Finance
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Contents:

PURPOSE

This policy outlines in general terms the distinction between capitalized and non-capitalized plant and equipment acquisitions. Plant is generally divided into three categories: land and land improvements, buildings and building improvements, and infrastructure. Equipment may be "movable" or "fixed" and is categorized as general equipment, furniture and fixtures, motor vehicles, technology (computers) and library books.

SCOPE

This policy is effective throughout the College.

POLICY

A. Authority:

Capitalization methods and life expectancies have been promulgated by Government Accounting Standards Board (GASB) Statements Nos. 34 and 35 and by the State University of New York (SUNY) on behalf of the community colleges. Pursuant to Title 8 NYSCRR 603.5(c), title to real property is vested with the sponsor (county) and dedicated for use by the college.

B. Capitalized Expenditures:

1. Land:

   a. New acquisitions of land are to be recorded at cost. Donations of land to the College shall be valued by an appraisal which is generally based on the fair market value at the date of the gift.

   b. Land is not depreciated.

2. Buildings and Building Improvements:

   a. Building improvements that add square footage to a building are capitalized.

   b. Major replacements or renovations of a building, which extend its original life and/or enhance the value to the College, are to be capitalized.

   c. Examples of building costs which are generally considered to be capital expenditures include:

      i. Demolition costs – preparation of the site

      ii. Cost of building materials

      iii. Contractor/construction costs

      iv. Architect or consultant fees

      v. Building permits

      vi. Subcontract fees

      vii. Payment of rented equipment to complete the construction

      viii. Operating and maintenance costs for equipment used in the construction

      ix. Costs of supplies consumed in construction

   d. Building renovations or rehabilitation:

      A building renovation or rehabilitation is defined as enhancements made to a previously existing building or building component and must extend the useful life or capacity of the asset (building).

3. Land Improvements and Infrastructure:

   a. Land improvements include such items as excavation, non-infrastructure utility installation, driveways, sidewalks, parking lots, flagpoles, fencing, outdoor lighting and other non-building improvements intended to make the area ready for its intended purpose or improve upon the area and enhance its condition.

b. Land improvements can further be categorized as non-exhaustible and exhaustible.

i. Land improvements that do not deteriorate with use or the passage of time are additions to the cost of land are generally not exhaustible, and therefore are not depreciable.

c. Infrastructure assets are defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems.

i. Improvements to infrastructure or land improvements which extend the useful life or capacity of the asset and meet capitalization thresholds will be capitalized as a separate asset/component and depreciated over its estimated useful life.

4. Equipment (movable):

a. Items of equipment or furnishings that have an acquisition cost of $5,000, or more, and a life expectancy of two or more years shall be capitalized.

i. A unit cost includes the cost of any modifications, attachments or accessories necessary to make it useable for the equipment's intended purpose.

ii. Delivery and installation costs are also included in the unit cost.

iii. Group or mass purchases (initial complement) of furnishings or equipment for a newly constructed building, which individually may be less than the capitalization threshold, are capitalized and depreciated over the average useful life of the items.

iv. Software purchases will be capitalized and depreciated if the unit cost is $10,000 or more.

5. Fixed Equipment:

Fixed equipment that can be inventoried is classified as equipment with the above mentioned properties of movable equipment "that are merely attached or fastened to the building but not permanently fixed and are used as furnishings, decorations, or for specialized purposes (e.g.: counters, laboratory benches bolted to floor, dishwashers and carpeting). Such equipment and assets will be considered as not being permanently fixed to the building if the items can be removed without the need for costly or extensive alterations or repairs to the building to make the space usable for other purposes. [1]

[1] OMB Circular A-21

6. Certain Items not to be Capitalized:

   a. Expenditures for repairs, maintenance or replacement parts which do not extend the item's original life or increase its value.

   b. Expenditures for moving partitions in an existing building or renovations that do not add value to the building.

   c. Expenditures incurred in connection with moving equipment from one College location to another College location.

   d. Expenditures made to maintain fixed assets in normal operating condition and/or to restore an asset to its normal operating condition.

C. Depreciation:

Depreciation is the process of allocating the cost of tangible property over a specific period of time, rather than expensing the entire cost in the year of acquisition. Generally, at the end of the asset's useful life, the sum of the amounts charged to depreciation in each accounting period will equal the original cost less any salvage value assigned.

1. Information needed to Calculate Depreciation:

   a. To properly calculate depreciation, the following five factors must be known:

      i. The date the asset was placed in service;

      ii. The asset's cost or acquisition value (as defined earlier);

      iii. The asset's salvage value, if any; and

      iv. The depreciation method to be used.

2. Depreciation Method:

   The College has established the straight-line methodology for depreciating all fixed assets. Depreciation will begin in the month the asset is placed in service with the exception of library books. Under the straight-line method of depreciation, the basis of the asset is written off evenly over the useful life of the asset. The amount of annual depreciation is determined by dividing an asset's cost (reduced by salvage value, if any) by its estimated life. The total amount depreciated can never exceed the asset's historic cost less salvage value. At the end of the asset's estimated life, the salvage value (if any) will be the only remaining cost. [2]

[2] The depreciation methodology cited reflects the depreciation method utilized by the State University of New York (SUNY).

3. Library Books:

College policy is for library books to be capitalized at a price of $5.00 per book purchased during the fiscal year with the difference (actual cost less capitalization amount) remaining as an operating expense for the year.

4. Useful Lives:

Useful lives of fixed assets was part of a comprehensive analysis of implementing GASB Statements 34 and 35 by SUNY and the NYS Community College Business Officers Association (CCBOA) in 2000-01. At that time, a resolution was passed for all 30 community colleges to uniformly adopt the useful lives for fixed assets, as promulgated.[3] It should be noted that the useful lives as contained in SUNY's *"Capitalization Policy and Depreciation Policy for Capital Assets" (dated July 1, 2011)* differ slightly from those asset lives as approved by CCBOA resolution for the community colleges.

The following schedule details the useful lives as contained in both the SUNY policy manual and the CCBOA resolution:

Capital Component	Useful Life as Per SUNY	Useful Life as Per CCBOA
General Construction	50	50
Site Preparation (classified as land)	Unlimited	50
Roof	25	20
Interior Construction	30	15
Plumbing	30	20
HVAC	30	15
Electrical	30	20
Fire Protection	25	20
Elevators	25	20
Miscellaneous	25	15
Equipment (Note 1)	5-15	10
Computers (Note 2)	5	5
Automobiles	6	5

Note 1: SUNY's equipment classifications lists 18 separate categories with useful lives of from 5 to 15 years. They are denoted by Asset Type Code identifier as used in the SFAAS classification method.

Note 2: SUNY's computers are listed as Asset Type Code 42, within the category of Equipment, having a useful life of 5 years.

[3] CCBOA resolution dated November 10, 2000, and passed unanimously.

D. Donated Assets:

Fixed assets acquired by gift, donation, or payment of a nominal sum not reflective of the asset's market value shall be assigned cost equal to the fair market value at the time of receipt. The services of a qualified appraiser may need to be utilized in developing the fair market value of the item or items being donated.