The City University of New York

Capital Asset Policy

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City University of New York Capital Asset Policy

I. Introduction

Effective July 1, 2001, the City University of New York (CUNY) was required to implement Governmental Standards Board (GASB) Statements Nos. 34 and 35, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments and Public Colleges and Universities. The new reporting model will require infrastructure reporting and depreciation accounting.

II. Purpose and Scope

This policy will assist CUNY in implementing the new reporting requirements by providing asset category definitions, capitalization thresholds, and depreciation guidelines for each asset.

III. Capital Asset Guidelines

Capital assets are real or personal property that have a value equal to or greater than the capitalization threshold for the particular classification of the asset in addition to having an estimated life of greater than two years.

Assets that are not capitalized are expended in the year of acquisition. Capital assets should be recorded at the acquisition costs for purchased items and at fair market value (at the date of donation) for donated items.

Note: Donated items require a valid statement from the donor detailing and supporting the market value of that item.

CUNY utilizes the following capital asset categories (13) in their operations:

- Buildings
- Building Improvements
- Land
- Land Improvements
- Equipment
- Furniture and Fixtures
- Computer Hardware
- Computer Software
- Vehicles
- Infrastructure
- Infrastructure Improvements
- Works of Art and Historical Treasures
- Construction in Progress

IV. Capital Asset Categories

[Refer to Section VII. Examples of Expenditures to be Capitalized.]

A. Building

A **building** is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable. Equipment permanently affixed to buildings should be included as part of

the building. Buildings should be recorded at either their acquisition cost or construction cost.

B. Building Improvements

Building improvements are capital events that materially extend the useful life of a building and/or increase the value of a building. A building improvement should be capitalized as a betterment and recorded as an addition to the value of the existing building if the expenditure for the improvement exceeds the capitalization threshold.

C. Land

Land is the ground, which can be used to support structures, and may be used to grow crops, grass, shrubs, and trees. Land is an inexhaustible asset and is characterized as having an unlimited life (indefinite), and is therefore not depreciated.

Note: This asset is not depreciable.

D. Land Improvements

Land improvements consist of betterments, site preparations and site improvements (other than buildings) that prepare land for its intended use. The costs associated with improvements to land are added to the cost of the land.

Note: This asset is depreciable.

E. Equipment (FAS Codes 300 - 309)

Equipment is defined as fixed or movable tangible assets to be used for operations, the benefits of which extend beyond one year from the date of acquisition. Improvements or additions to existing equipment that constitute a capital outlay or increase in the value or life of the asset, with an acquisition of $5,000 or more [computer hardware is an exception - $1,000], should be capitalized as a betterment and recorded as an addition of value to the existing asset.

Jointly Funded Equipment is defined as equipment paid for in whole or by part of another entity and should be capitalized by the entity responsible for future maintenance.

Leased Equipment should be capitalized if the lease agreement meets any <u>one</u> 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.
  - ❖ A bargain purchase option is a provision allowing the lessee to purchase the leased property for a price that is significantly lower than the

property's expected fair market value at the date of the option becomes exercisable. At the inception of the lease, the difference between the option price and the expected fair market value must be large enough to make exercise of the option reasonably assured.

- The lease term is equal to 75 percent or more of the estimated economic useful 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.

    - ❖ Like most assets, leased tangible assets require the incurrence of insurance maintenance, and tax expenses - called executory costs - during their economic useful life.

Leases that do not meet any of the above requirements should be recorded as an operating lease, which is an expenditure in the current year.

- ➢ This type of lease should not be capitalized

F. Infrastructure

Infrastructure are 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.

G. Infrastructure Improvements

Infrastructure improvements are capital events that materially extend the useful life or increase the value of the infrastructure. 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. CUNY will depreciate assets utilizing the straight-line method and will not be utilizing the modified approach to depreciation.

H. 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 requires the proceeds from sales of collection items to be used to acquire other items for collections. This category will also include any books that are of historical or significant value.

Exhaustible collections or items – items whose useful lives are diminished by display or educational or research applications.

Inexhaustible collections or items – where the economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinary 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.

For works of art, a footnote disclosure regarding the estimated current market value in lieu of reporting a cost-based amount is acceptable. Works of art may be excluded from inclusion in the financial reports if all of the following criteria are met:

- They are held for exhibition, education, or research in furtherance of public service rather than for financial gain;
- They are protected, kept unencumbered (i.e., not pledged as collateral), cared for and preserved;
- They are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections; and

The University's policy is to capitalize all works of art and historical treasures.

Note: This asset is not depreciable.

I. **Furniture and Fixtures** includes the cost of all office furniture and fixtures (desks, chairs, filing cabinets, etc.).

J. **Computer Software** includes the cost and installation of software that is either purchased from an external vendor (e.g., Microsoft Office applications) or internally developed.

The National Association of Colleges and University Business Officers have required colleges and universities to adopt the 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. This statement requires CUNY to meet the following tests (in regards to software):

- The software must be acquired, internally developed or modified solely to meet the university's internal needs.
- Significant/internally developed software (e.g. SIMS) will be identified and capitalized whenever practical.
- During the software's development or modification, the University must not have a substantive plan to market the software externally to other organizations.

K. Computer Hardware includes the cost and installation of computer equipment such as laptop computers, desktop computers, printers, servers on local area networks, and disk storage. Improvements or additions to existing computer hardware that constitute a capital outlay or increase in the value or life of the asset, with an acquisition of $1,000 or more, should be capitalized as a betterment and recorded as an addition of value to the existing asset.

L. Vehicles are a means of transportation

- Examples of equipment, which are not vehicles, are a John Deere tractor, boats, and a golf cart.

M. Construction in Progress

Construction in Progress reflects the economic construction activity status of buildings and other structures, infrastructure (highways, energy distribution systems, pipelines, etc.), addition, alterations, reconstruction, and installation, which are substantially incomplete.

Note: This asset is not depreciable.

V. Capitalization Thresholds

CUNY has established the following capitalization thresholds for individual capitalizing assets:

	Class of Asset	Threshold
1	Building	ALL
2	Building Improvements	$25,000
3	Land	ALL
4	Land Improvements	$25,000
5	Equipment	$5,000
6	Furniture and Fixtures	$5,000
7	Computer Software	$5,000
8	Vehicles	$5,000
9	Computer Hardware	$1,000
10	Infrastructure	$100,000
11	Infrastructure Improvements	$100,000
12	Works of art/historical treasures	$5,000
13	Construction in Progress *(capitalized until substantially complete)*	n/a

Note: If a purchase consists of several items whose aggregate cost exceeds the above threshold for a particular asset class, these items will not be capitalized if their individual costs do not exceed the aforementioned threshold.

VI. Exception to Capitalization

The following is an exception to the policy:

- Unique items that the University may want to track and inventory regardless of the cost (e.g., weapons for police).

- Beginning in fiscal 2002, the University will expense the costs of all library books except those meeting the definition of a historical treasure.

VII. EXAMPLES OF EXPENDITURES TO BE CAPITALIZED

	Class of Asset	Examples of Expenditures (to be capitalized)
1	**Buildings**	Purchased Buildings: • Original purchase price • Costs associated with the remodeling, reconditioning or altering of purchased buildings • Environmental compliance (asbestos abatement) • Professional fees (legal, architect, inspections, title searches) Constructed Buildings: • Completed project costs • Cost of building improvements (including professional fees) • Costs of temporary buildings during construction • Additions to buildings • Cost of excavation or grading or filling land for a specific building
2	**Building Improvements**	• Structures attached to the building such as enclosed stairwells, garages, etc. • Installation or upgrade of heating and cooling systems, including ceiling fans and attic events, energy conversion projects • Structural changes such as reinforcement of floors or walls • Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc. • Exterior renovation such as installation or replacement of siding, roofing, masonry, etc. • Professional fees (legal, architect, inspections, title searches)
3	**Land**	• Purchase price or fair market value (if donated) • Commissions • Professional fees (title searches, appraisal, surveying, etc.) • Land excavation, fill, grading, drainage • Demolition of existing buildings • Removal, relocation or reconstruction of property • Interest on mortgages, accrued and unpaid taxes at date of purchase
4	**Land Improvements**	• Fencing and gates • Yard lighting, fountains, lagoons • Parking lots, parking barriers • Recreation areas and athletic fields (including bleachers, tennis courts, swimming pools and golf courses) • Retaining walls • Paths and trails • Septic Systems • Flagpoles

		• Professional fees (legal, architect, etc.)

	Class of Asset	Examples of Expenditures (to be capitalized)
5	**Equipment**	• Purchase price or fair market value • Assembly and installation costs • Freight and handling charges • Insurance on equipment while in transit • Professional fees (consultant, maintenance, etc.)
6	**Infrastructure**	• Communications system – Fiber optic cabling, telephone distribution systems (b/t buildings) • Pavement systems – highways, roads, streets, curbs, alleys, sidewalks, fire hydrants, bridges, guard rails, • Utilities – gas distribution systems, electric, water, gas (main lines and distribution lines, tunnels), septic systems • Traffic lights, street signage and lighting
7	**Infrastructure Improvements**	• Improvements on current infrastructure • Rewiring of communication systems • Re-paving of current pavement systems • Professional Fees (architect, engineer, etc.)
8	**Furniture and Fixtures**	• Purchase price or fair market value • Assembly and installation costs (including professional fees) • Freight and handling charges • Insurance on furniture and fixtures in transit
9	**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 • Purchase price or fair market value at the date of donation • Books of historical or significant value
10	**Computer Software**	• External direct costs of materials and 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 • Professional fees
11	**Computer Hardware**	• Purchase price or fair market value • Professional fees, relating to assembly and installation costs • Freight and handling charges • Insurance on computer hardware while in transit
12	**Vehicles**	• Purchase price or fair market value • Assembly and installation costs • Freight and handling charges • Insurance on vehicles, while in transit
13	**Construction in Progress**	• Costs to construct item

VIII. Depreciation Guidelines

A. Depreciation Definition

Depreciation is the process of allocating the cost of tangible property over a period of time, rather than deducting the cost as an expense in the year of acquisition. Generally, at the end of an asset's life, the sum of the amounts charged for depreciation in each accounting period (accumulated depreciation) will equal the original cost less the salvage value. Good accounting and financial management practices require that a University take both the cost expiration and the declining value of an asset into consideration.

B. Information Needed to Calculate Depreciation

To calculate depreciation on a capital asset, the following five factors must be known:

- The date the asset was placed in service
- The asset's cost or acquisition value
- The asset's estimated useful life
- The depreciation method.

C. Salvage Value

The salvage value of an asset is the value the asset expects to have when it is no longer useful for its intended purpose. In other words, the salvage value is the amount for which the asset could be sold at the end of its useful life. CUNY will not be assigning salvage value for capital assets.

D. Estimated Useful Life

Estimated useful life means the estimated number of months or years that an asset will be able to be used for the purpose for which it was purchased. Capital assets should be depreciated over their estimated useful lives.

Designated Useful Lives

	Class of Asset	Useful Life
1	Building	40 years
2	Building Improvements	10-25 years
3	Land	Not depreciable
4	Land Improvements	15 years
5	Equipment	5 years
6	Furniture and Fixtures	5 years
7	Computer Software	5 years
8	Computer Hardware	5 years
9	Vehicles	5 years
10	Infrastructure	20-40 years
11	Infrastructure Improvements	10-25 years
12	Works of art/historical treasures	Not depreciable
13	Construction in Progress	Not depreciable

E. Straight-Line Method

Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible (items whose economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinary 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 and is not depreciated.

CUNY will be utilizing the straight-line method of depreciation for the assets mentioned above. The straight-line method is the simplest and most commonly used method in calculating depreciation. It can be used for any depreciable property. Under the straight-line depreciation method, the basis of the asset is written off evenly over the useful life of the asset. The same amount of depreciation is taken each year. In general, the amount of annual depreciation is determined by dividing an asset's depreciable cost by its estimated life.

For example, a $10,000 copier with a useful life of 5 years is placed in service on March 16, 2000. The depreciation calculation, using the straight-line method would be:

Original Cost	$10,000
Estimated Life	5
Depreciation per year	**$ 2,000**

F. Full-Year Convention

To avoid the complications of depreciating each asset from the specific date on which it was placed in service, GAAP supports guidelines that assume various assets are placed in service or disposed of at designated dates throughout the year. To satisfy this requirement, CUNY has elected to use the full-year convention.

Under a full-year convention, property placed in service at any time during the given year is treated as if it had been placed in service at the beginning of the year. This allows depreciation to be taken for the entire year in which the asset is placed in service. If the property is disposed of before the end of the estimated useful life, no depreciation is allowed for the year of disposition.

Depreciation data will be calculated and stored by the Office of the University Controller for each eligible asset. Accumulated depreciation will be summarized and posted to the accounting general ledger.

IX. Reporting Depreciation Expense in the Financial Statements

For general capital assets, depreciation is reported on university-wide financial statements only. CUNY will report depreciation expense as a separate line item on the Statement of Revenues, Expenses and Changes in Net Assets.

X. Reporting Capital Assets in the Financial Statements

Capital assets and the associated accumulated depreciation are reported in the Statement of Net Assets. Accumulated depreciation may be reported separately, or capital assets may be presented net of accumulated depreciation on the statement. Capital assets that are not being depreciated, such as land, will be reported separately if the University has a significant amount of these assets. Capital assets will also be reported in major class of asset (for example, infrastructure, buildings and improvements, equipment, infrastructure and improvements). The University will report both the historical cost and accumulated depreciation on the face of the statement.

XI. Periodic Review of Capital Asset Policy

The Office of the University Controller will be responsible for the implementation, periodic review and revision of this policy; as well as ensuring that all appropriate parties are informed of the guidelines stated above.