Capital Asset Policy

Effective July 1, 2001
Last revised May 9th 2019

Objective:

This Capital Asset Policy is to ensure The College of New Jersey's (the College) and its affiliates' (Trenton State College Corporation and The College of New Jersey Foundation, Inc.), collectively referred to as the College, capital assets are capitalized and depreciated in a consistent matter and in accordance with the Governmental Accounting Standards Board (GASB) and other applicable government regulations.

Summary:

A capital asset is permanent, tangible, and held for purposes other than investment or resale that has a useful life of more than one year and a value of at least $5,000.

The College records a capital asset at acquisition cost and uses the straight-line method of depreciation (capitalized cost divided by its estimated useful life). Currently, the College takes a non-GAAP approach in regards to the timing of when a new capital asset begins depreciating, calculating depreciation on a one-year lag instead of the year placed in service (i.e. assets purchased in fiscal year 2001 will be depreciated in fiscal year 2002 and beyond). This is a non-GAAP policy since it does not follow the matching principle of accrual accounting. Annually, this non-GAAP approach is assessed to ensure no direct material impact to the financial statements.

Donated assets must meet the College's capital asset criteria and will be recorded at fair market value at the date of donation.

Capitalization Thresholds and Useful Lives:

The useful lives in the table below are suggested based on the most common useful life or range for the asset type. The office of Finance and Business Services (FBS) may determine a different useful life is appropriate for a particular asset based on the nature and purpose of the asset.

Asset Category	Threshold	Useful life
Equipment	$5,000	5-10 years
Hardware and computers	$5,000	5 years
Furniture	$5,000	5-10 years
Vehicles	$5,000	7 years
Buildings	None	30-50 years
Housing transfers	None	30 years
Building improvements	$5,000	25 years
Leasehold improvements	$5,000	Remaining life of lease
Land	None	Not depreciated
Land improvements ^ and Infrastructure	$20,000	5-25 years
Software implementation	$100,000	10 years
Construction in progress	Based on Asset Category upon completion	Not depreciated
Works of art and historical treasures	None	Not depreciated

^ Some land improvements are inexhaustible, therefore not depreciated. Please refer to the Land Improvements and Infrastructure section below for more information.

Equipment, Furniture and Vehicles:

Equipment and furniture are movable units such as equipment that are not a part of a building, machinery, furniture and hardware. The useful life is typically between 5-10 years.

Capitalized equipment or furniture generally must meet the following additional criteria:

- Per unit cost is $5,000 or more;
- Nonexpendable and does not become a fixture or lose its identity as a component of other equipment or plant;
- Is freestanding and movable (not permanently affixed to a building or structure).

Costs that **can be** capitalize with the equipment are as follows:

- Shipping charges
- Freight
- Installation costs

Costs that should **NOT** be capitalized with the equipment are as follows:

- Equipment repair costs
- Separate warranty costs or maintenance contracts
- Replacement parts or spares
- Technical service costs

Vehicles are capitalized when the per-unit cost is $5,000 or more. The useful life is seven years.

Exceptions to Per Item Thresholds

Bulk/Aggregated Items

According to GASB, some assets individually may fall below the capitalization threshold but may be purchased in large quantities. Institutions should aggregate such assets and consider the materiality and significance of them and if material or significant capitalize such individually or in the aggregate.

Bulk equipment and furniture purchases of similar items that have an aggregated value of $50,000 or more are captured as a capital asset despite per unit cost (i.e. the College purchases 70 laptops for $1,200 per unit, these items will be deemed capital assets). This threshold is subject to change based upon management assessment.

Capital Projects for New Construction and Renovation or Remodeling of an Existing Building

For capital projects relating to new construction, renovations or remodeling, if the total cost of the furnishings and/or equipment equals or exceeds $50,000, the $5,000 threshold is waived as the furniture and equipment are a necessary part of the capital project to make the building functional.

Grant-Funded Equipment

Many sponsors permit the acquisition of non-expendable equipment with project funds provided the equipment is required in order to perform the project. It is necessary to know who owns the equipment which is addressed in the sponsor's guidelines and/or in the property clause of the agreement. This information must be considered when preparing the proposal or when reviewing the award agreement because the property clause of the sponsored agreement or the applicable agency guidelines will specify the titleholder of equipment purchased with sponsored funds or of equipment received from the sponsoring agency.

It is the responsibility of the Principal Investigator to ascertain the specific requirements of the award prior to ordering equipment.

Equipment Ownership

Nearly all grant agreements stipulate that title to equipment purchased with grant funds vests with the College upon acquisition. In most cases, the government retains certain rights to the equipment such as the right to direct disposition of the equipment at the end of the project, or the right to have the equipment transferred to another institution when the Principal Investigator leaves the College. However, every contract has the potential to contain specific language about title to equipment, and the contract language must be carefully reviewed by FBS. Normally, non-federal grants and contracts also stipulate that title to equipment purchased with project funds vests with the College upon acquisition.

Equipment Acquisition

Equipment can be acquired through a variety of methods including direct purchase, gift or donation to the College, transfers from another institution, and transfers from contract or grant sponsors. Because the College must recognize and comply with all funding agency and sponsored agreement requirements relative to capital equipment, including those requirements involving a definition of capital equipment different from the thresholds used by the College, it is the responsibility of FBS to approve all capital equipment purchases made with sponsored project funds prior to the actual purchase, regardless of the method used to make the purchase.

Equipment Management

The College is responsible for the security and protection of all equipment in its possession. All federally-funded grants and contracts contain provisions requiring the College to properly care for and manage all government-owned equipment. This includes both equipment purchased with grant or contract funds, as well as equipment provided by the government to the College for use on the sponsored project. Equipment purchased with federal funds, whether federally-titled or College-titled, must follow federal regulations that outline the requirements for property control and reporting: 2 CFR 200 – *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*. (200.439 *Equipment and other capital expenditures*, 200.13 *Equipment*, 200.33 *Equipment*, 200.48 *General purpose equipment*, 200.2 *Acquisition cost*, and 200.12 *Capital assets*).

In order to satisfy the above regulations and accomplish effective equipment management, it is essential that all equipment-related tasks be carried out in an environment characterized by cooperation and shared effort. At the College, the responsibility for equipment management rests collectively with the following:

- Departmental managers / Principal Investigators – Inventory custodian
- Office of Finance and Business Services – Inventory tracking system
- Facilities Management, Construction and Campus Safety – Inventory security
- Office of Information Technology – Computer equipment security

Equipment Disposal

FBS approval is required when disposing of any equipment that is purchased with sponsored project funds or provided by the sponsor to the College for use on the sponsored project. Departments or employees are not authorized to dispose of any equipment without proper approval. The principal investigator must report, in writing, any instance of improper equipment disposal to the head of the responsible school or division. If the item in question is federally-owned property, the principal investigator must immediately inform the Office of Campus Police and FBS.

Library Acquisitions:

Effective beginning fiscal year 2012, the College will no longer capitalize library books. The remaining value of library books previously capitalized will be depreciated over their remaining original useful life.

Buildings:

Buildings should be recorded at either their acquisition cost or construction cost with a 30-50 year useful life. All direct costs of construction should be included in calculating the capitalized cost of the asset. Direct costs may consist of but are not limited to: contractor/architect/engineering costs, College payroll charges, legal fees, permits, and testing and survey costs. In addition, all permanently attached fixtures, machinery, and other components that cannot be removed without damage resulting to the building are to be included in the construction costs. If a component can be removed, it should be treated as moveable equipment/furniture and follow the capital asset criteria for that asset category.

Housing Transfers:

Housing transfers are buildings transferred to The College of New Jersey from Trenton State College Corporation (TSCC). Housing transfers should be recorded at their net book value at the date of transfer with a 30 year useful life.

Building Improvements:

Building improvements are renovations, additions, remodeling and structural changes to an existing building that equal or exceed $5,000 and that extend its useful life, adapt a new use, or significantly increase the value of the asset. Building improvements include but are not limited to installation or replacement of the entire roof, upgrading to energy efficient lighting, heating or cooling systems, communication wiring, plumbing or electrical systems, rearrangement of space (conversion of space), windows or doors and parking garages.

Costs that should **NOT** be capitalized with the building improvements are as follows:

- Work to sustain a building in its existing state such as repairs, replacements, or maintenance of component parts. This is work that does not extend the building's original useful life or significantly increase its value (i.e. replacing light fixtures or flooring, regular repairs and maintenance of roof and major systems, interior and exterior painting).

Leasehold Improvements:

Leasehold improvements follow the same definition and dollar thresholds as building improvements and equipment. The College utilizes the Government Accounting Standards Board (GASB) Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* to support the accounting treatment for leasehold improvements. 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. If the lease contains an option to renew and the likelihood of the renewal is uncertain, the leasehold improvement should be amortized over shorter of the life of the initial lease term or the useful life of the improvement.

Land:

Land is to be capitalized but not depreciated. Land is recorded at historical cost and remains at that cost until disposal. If there is a gain or loss on the sale of land, it is reported as a special item in the statement of revenues, expenses, and changes in net position.

Land Improvements and Infrastructure:

Land Improvements

Land improvements are those betterments, improvements, and site preparations that ready land for its intended use that equal or exceed the cost of $20,000.

Inexhaustible Land Improvements

Inexhaustible land improvements are those whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinarily long. Examples are as follows: excavation, grading, filling, draining, cleaning, and removing old construction.

Depreciable Land Improvements

Depreciable land improvements are improvements made to land that have determinable estimated useful lives and deteriorate with use or passage of time. Examples are as follows: walking paths, trails, fences, gates, landscaping, sprinkler systems, and foundations.

Infrastructure

Infrastructure is normally stationary in nature and cannot be identified to a specific building that equal or exceed the cost of $20,000. Examples of infrastructure are: sidewalks, roadways, parking lots, bridges, drainage and sewer systems, cabling and network between buildings, athletic fields, utility delivery systems, light systems and campus boundary signs.

Costs that should **NOT** be capitalized as infrastructure are as follows:

- Work to maintain the original asset in its existing conditioning (such as repairs or resurfacing of roadways and parking lots that are recurring in nature and does not extend the roads and parking lots useful life or capacity)

  Road resurface project example of when to capitalize: If the project increases the serviceability (i.e. increases load capacity) or extends the useful life of the road, the cost of the project should be capitalized. The cost of the replaced roadway surface and its associated accumulated depreciation should be written off.

Components

- Utility Distribution Systems – Include tunnels, vaults, pipelines, conduit, cabling, transformers, and switches, for the campus-wide delivery of electricity, gas, sewer, water, and steam.
- Chilled Water Production Systems – Equipment of a stationary nature used for the production of chilled water. Include chillers, piping, and cooling towers and other equipment to the control point of the Utility Distribution System.
- Heating Production – Equipment of a stationary nature used for the production of heat or hot water. Include boilers, piping, and other equipment to the control point of the Utility Distribution System.
- Electrical Production – Equipment of a stationary nature used for the production of electricity. Include turbines, backup generators, and transformers and other equipment to the control point of the Utility Distribution System.
- Telecommunications Systems – Include conduit, cabling (wire or fiber-optic), transformers, for the campus-wide delivery of data and voice telecommunications.
- Parking Lots – Include all parking lots and related costs incurred for the parking lot that would otherwise not be needed such as paving, curbing, lighting, entry/exit access gates, lot attendant buildings, parking meters, and landscaping. Does not include Parking Garages (which are included in buildings).
- Street Systems – Include roadway systems, gates, bike paths and pedestrian routes, sidewalks, and curbs.
- Landscaping/Outdoor Structures – Include campus boundary signs, landscaping (i.e. grass, trees, and shrubs) and benches.

- Water Control Systems – Include irrigation systems, drainage systems, and underpasses.

Software Implementation:

Software implementation is capitalized if it has an expected useful life of at least five years and a cost of at least $100,000. The useful life for depreciation purposes is 10 years. External costs associated with the application development phase will be capitalized. Management's judgment will be used to determine whether it is possible and cost effective to sufficiently track and document internal costs associated with the application development phase for capitalization on a project-by-project basis.

The College is required to follow GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (see excerpts below, refer to GASB Statement No. 51 for full Statement):

Internally generated computer software

Stages of activities involved:		
Preliminary Project Stage	***Application Implementation/ Development Stage***	***Post-Implementation/ Operation Stage***
Expense	***Capitalize***	***Expense***
• Conceptual formulation and evaluation of alternatives	• Design of the chosen path; software configuration and software interfaces, coding	• Application training
• Determination of the existence of needed technology	• Installation to hardware	• Software maintenance
• Final selection of alternatives for the development of the software	• Testing, including parallel processing phase	

Refer to GASB Statement No. 51 for more information on internally generated computer software.

Construction in Progress:

Construction in progress (CIP) is used when an asset is under construction but will meet the capitalization threshold and criteria for its asset category upon completion. The costs to complete the project must cross over at least two fiscal years. All related costs associated with the project are accumulated in CIP and not placed into the appropriate asset category or depreciated until the project is substantially complete or in use.

Works of Art & Historical Treasures:

Works of Art and Historical Treasures should be recorded at historical appraised costs. Depreciation is not required for collections or work of arts that are inexhaustible (they do not deteriorate with the passage of time and are meant to be preserved).

Artwork Gift Policy

The College implemented an Artwork Gift Policy effective July 5, 2016. Its purpose is to provide guidance on the proper process for determining acceptance and acquisition of artwork offered to the College. The College, by recommendation of the Collection Committee, reserves the right to exchange, donate, sell or discard donated items as needed if they are not considered appropriate for the collection. The College is not legally bound to acquire objects that are bequeathed to it, unless by prior agreement.

Artwork Held for Sale

Artwork held for sale will be measured at acquisition value as stated in GASB 72 *Fair Value Measurement and Application*, paragraph 79:

> "The following assets should be measured at acquisition value:
>
> a. Donated capital assets provided in paragraph 18 of Statement 34, as amended

b. Donated works of art, historical treasures, and similar assets as provided in paragraph 27 of Statement 34
c. Capital assets that a government received in a service concession arrangement as provided in paragraph 9 of Statement 60"

As stated in paragraph 68 of GASB 72, artwork that is initially reported as a capital asset and later is held for sale will not be reclassified as an investment.

Impairment of Capital Assets and Insurance Recoveries:

If the department of Finance and Business Services (FBS) at the College becomes aware of potential impairment, FBS is responsible for the analysis in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.*

Impairment Triggers

GASB 42 defines a capital asset impairment as "a significant, unexpected decline in the service utility of a capital asset." Rather than requiring that each capital asset be tested for a decline in service utility on an ongoing basis, the standard identifies five indicators of impairment. They are: (1) evidence of physical damage; (2) passage of laws, issuance of regulations, or other changes in environmental factors that affect the use of an asset; (3) technological developments or evidence of obsolescence; (4) changes in the manner or expected duration of use of a capital asset; and, (5) construction stoppages. An impairment test must be conducted if any of the five triggers occurs.