

## Capital Assets & Depreciation Policy

*Effective July 1, 2001 – Revised 04/30/10, 06/30/12, 6/21/17*

### Objective

To revise the College's capitalization thresholds for capital assets to ensure that capital assets are correctly classified and depreciated in its financial statements in accordance with Government Accounting Standards Board Statement No. 35 and Generally Accepted Accounting Principles.

### Capitalization Policy

The College's capitalization policy will establish the funding threshold at which capital assets (acquired through procurement or construction) and movable equipment will be recorded in the institution's financial systems.

The capital assets record will form the basis for the college's annual depreciation expense.

Capital assets include: land, land improvements, buildings, transfer houses, building improvements, construction in progress, works of art, machinery and equipment (including vehicles) and infrastructure.

### *Capitalization Thresholds*

<b>ASSET TYPE</b>	<b>THRESHOLD AMOUNT</b>
Academic Equipment	\$ 3,000
Building	None
Building Improvements	5,000
Equipment	3,000
Computer Equipment	3,000
*Construction in Progress	None
Infrastructure	5,000
*Land	None
Land Improvements	25,000
Vehicles	3,000
TSC Corp Building	None
TSC Corp Building Improvements	1,000
Software Implementation	100,000

*Works of Art/ Historical Treasures	None
Leasehold Improvements	5,000

\* Construction in Progress, Land and Works of Art/ Historical Treasures are capitalized but are not depreciated.

### **Recording Land**

Land is to be capitalized but **not depreciated**. It is recorded at historical cost and remains 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.

### **Recording Land Improvements**

Land improvements include items such as excavation, lighting, and other non-building improvements intended to make the land ready for its intended purpose. Land improvements can be further categorized as non-exhaustible and exhaustible.

- Non-Exhaustible – Expenditures for improvements that do not require maintenance or replacement, expenditures to bring land into condition to commence erection of building, and expenditures for land improvements that do not deteriorate with use or passage of time are additions to the cost of land and are generally not exhaustible and therefore not depreciable.
- Exhaustible – Other improvements that are part of a site, such as parking lots, landscaping and fencing, are usually exhaustible and are therefore depreciable. Site improvements are usually classified as infrastructure assets.

### **Recording Buildings**

Buildings should be recorded at either their acquisition cost or construction cost. The cost of new construction should be carefully evaluated. Usually projects consist of major components such as land, land improvements, building construction (including professional fees and permits), furniture, fixtures and equipment.

### **Recording Building Improvements**

Building improvements that extend the useful life should be capitalized. GASB suggested that institutions should review major maintenance projects for the last several years to determine those that should become part of the restatement of assets for purposes of complying with Statement 35. Examples of building improvements include roofing projects, major energy conservation projects, or remodeling and replacing major building components.

According to GASB, institutions will need to determine the practicality of identification of these projects and prepare an inventory. The inventory will need to include a project description, the year completed, funding source and dollar amounts. Only those projects that meet the capitalization threshold need to be included.

### **Recording Construction in Progress and Capitalization of Interest**

Construction in progress, including capitalized interest, should be capitalized and not depreciated. It should be reported with land and other non-depreciating assets.

Public institutions are subject to the requirements of FASB Statement 34, Capitalization of Interest Cost and FASB Statement 62, Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants. These statements require that interest during construction be capitalized.

The objectives of capitalizing interest are to obtain a measure of acquisition cost that more closely reflects the institution's total investment in the asset. The amount of interest capitalized should theoretically be the amount of interest charged during the assets' acquisition period that could have been avoided if the assets had not been acquired.

When assets are provided through tax exempt borrowings externally restricted for the construction of specific assets, then the amount of interest cost to be capitalized is the total cost of the borrowings less any interest earned on temporary investment of the proceeds of the borrowings, from the date of borrowing until the assets acquired with the borrowings are ready for their intended use.

### **Recording Machinery & Equipment (including vehicles)**

Assets such as furniture, machinery and equipment (that meet the threshold of \$3,000) will be identified, inventoried and capitalized. According to GASB, some assets individually may fall below the capitalization threshold but may be purchased in large quantities. Examples include library books, textbooks and computers. 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.

### **Grant-Funded Property and 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 title-holder 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 Finance and Business Services (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 TCNJ 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 TCNJ, 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*

TCNJ 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 TCNJ, 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**

Next to physical plant or endowment, the most valuable recorded asset of an established research university or four-year college may be its library books. Effective 6/30/2006 TCNJ capitalized and depreciated library books on a straight line basis over five years. Effective beginning fiscal year 2012, TCNJ will no longer capitalize library books. The remaining value of library books previously capitalized will be depreciated over their remaining original useful life.

### **Recording 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 – meant to be preserved).

#### *Artwork Gift Policy*

The College implemented an Artwork Gift Policy, effective 7/5/2016. 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 proved in paragraph 18 of Statement 34, as amended
- b. Donated works of art, historical treasures, and similar assets as proved 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.

### **Software Implementation**

Colleges and universities are now encouraged by the National Association of College and University Business Officers to adopt the AICPA Statement of Position 98-1, Software Developed or Obtained for Internal Use (SOP 98-1).

#### *Internal Use Software Definition*

For software to be considered for internal use, it must meet the following tests:

- The software must be acquired, internally developed or modified solely to meet the college/university's internal needs, and
- During the software's development or modification, the college/university must not have a substantive plan to market the software externally to other organizations.

#### *Capitalization of Costs*

Software development generally involves three phases. These phases and their characteristics are as follows:

- Preliminary project phase – when conceptual formulation of alternatives, the evaluation of alternatives, determination of existence of needed technologies and final selection of alternatives is made.
- Application development phase – design of chosen path including software configuration and software interfaces, coding, installation of computer hardware and testing, including parallel processing phase.
- Post-implementation/operation phase – training and application maintenance activities.

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. Software Implementation will be capitalized if it has an expected useful life of at least five years and a cost of at least \$100,000.

### **Infrastructure Definition**

Infrastructure is capital assets that are normally stationary in nature and cannot be identified to a specific building. Examples of infrastructure assets include roads, tunnels, utility delivery systems, irrigation systems, sidewalks, fencing, parking lots, turf, and campus boundary signs.

### *Infrastructure Components*

- Utility Distribution Systems – Include tunnels, vaults, pipe-lines, conduit, cabling, transformers, 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 such as paving, sidewalks, curbing, lighting, entry/exit access gates, lot attendant buildings, parking meters, landscaping. Does not include Parking Garages (which are included in buildings)
- Street Systems – Include roadway systems, gates, bike paths and pedestrian routes, sidewalks, curbs.
- Landscaping/Outdoor Structures – Include campus boundary signs, landscaping (e.g., grass, trees, shrubs) and benches.



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

### **Estimated Useful Life**

Estimated useful life means the estimated number of months or years that an asset is used for the purpose for which it was purchased. In determining useful life, the college considers the asset's present condition, use of the asset, construction type, maintenance policy, and how long it is expected to meet service demands. An asset must have an estimated useful life greater than one reporting period to be considered for capitalization and depreciation. Assets that are consumed, habitually lost, or worn-out in one year or less should not be capitalized.

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

#### *Summary of Useful Life by Asset Type*

<b>ASSET TYPE</b>	<b>USEFUL LIFE (in years)</b>
Academic Equipment	3-10
Building	50
Building Improvements	25
Building (Transfer Houses)	30
Equipment	3-10
Computer Equipment	3-5
Infrastructure	10-35
Land Improvements	25
Vehicles	7
TSC Corp Building	30
TSC Corp Building Improvements	25
Software Implementation	10
Leasehold Improvements	**

*\*\*TCNJ 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 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.*

### **Depreciation Definition**

In accounting terms, 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 salvage value (if any).

TCNJ uses the straight-line method for depreciating assets. The straight-line method is the simplest and most commonly used for calculating depreciation. 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 useful life.

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. These guidelines are called averaging conventions.

TCNJ will calculate depreciation on a one-year lag (assets purchased in FY01 will be depreciated in FY02 and beyond).

### **Impairment of Capital Assets and Insurance Recoveries**

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is effective for fiscal years beginning after December 15, 2004, establishes recognition and disclosure requirements for capital asset impairments. GASB's approach to impairment loss recognition is based on a concept of service utility. Governments, including public colleges and universities, hold capital assets primarily to provide service to the entity's constituents. When an asset's ability to provide service is significantly reduced in a way that could not have been anticipated, that event should be recognized in the financial statements as an impairment loss.

#### *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.

#### *Impairment Test*

An impairment loss has occurred if both (a) the magnitude of the decline in service utility is significant and (b) the decline in service utility is unexpected. Significance is demonstrated when either the expenses related to continued operation and maintenance (including depreciation) or costs associated with restoration are significant relative to the current service utility. In the absence of physical damage, management's efforts to address the service decline are assumed to be an indication that expenses are too high relative to the service benefits.

The unforeseen nature of the changed circumstance is demonstrated when the event or circumstance indicating a possible impairment is not part of the asset's normal life cycle. This does not suggest that every decrease in an asset's useful life represents an impairment, because determining an asset's useful life and service utility at its acquisition is not a precise science. However, management does have a reasonable range of expectations about the asset, and an occurrence that is outside of that range is unexpected. To be safe, an impairment test should be considered whenever the useful life of an asset is reduced significantly. If an indicator of impairment is identified, but the test of impairment determines that an impairment has not occurred, the estimates used in computing depreciation (e.g., salvage value and remaining useful life) should be reevaluated and changed as needed.

#### *Impairment Loss Measurement*

The measurement of the loss differs dependent upon whether the asset will continue in service or will no longer be used by the college or university. If an impaired asset will not continue in service, the asset must be written down to the lower of its carrying value or fair value. If a significant and unexpected decline of service utility has occurred for an asset that will continue in service, the impact of the impairment must be measured using one of three approaches:

- Restoration cost approach, which relies on estimates of the cost to restore the lost utility of the asset. That estimate is restated to historical cost using a relevant cost

index or by applying a ratio of estimated restoration cost over estimated replacement cost to the carrying value of the asset. This method is most appropriate for impairments resulting from physical damage.

- Service units approach, which focuses on the historical cost of the lost service utility as measured before and after the event or change in circumstances. The measurement focuses either on maximum estimated service units or total estimated service units. This approach should be used for impairments resulting from new laws or regulations, other changes in environmental factors, or technological development or obsolescence.
- Deflated depreciated replacement cost approach, which replicates the historical cost of the service produced. An estimate is made of the current cost of an asset that could replace the current level of service. That current cost is then depreciated and converted to historical cost dollars. This approach is applied when there is an impairment resulting from a change in manner or duration of use.

#### *Reporting Impairment Losses and Insurance Recoveries*

An impairment loss is reported in the statement of revenues, expenses, and changes in net position as a program or nonoperating expense, special item, or extraordinary item, as appropriate. The carrying value of impaired capital assets that are idle at year-end should be disclosed. If an associated insurance recovery occurs in the same year as the impairment loss, the loss is reported net of the recovery. If the insurance recovery occurs in a subsequent year, it is reported as program revenue, nonoperating revenue, or an extraordinary item, as appropriate. The restoration or replacement of impaired capital assets is reported as a separate transaction from the loss or the associated insurance recovery.

#### *Temporary Impairments*

Temporary impairments need not be recognized in financial statements or disclosed.