

C.1.11.1 (Procedure) Accounting for Capital Assets

Responsible Department: Vice Chancellor for Finance and Administration

Based on Board Policy: [C.1.11](#) - Accounting for Capital Assets

Approved: 2-23-10

Last Amended:

Land

Definition

Land is 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, together with applicable acquisition costs. Land is characterized as having an unlimited life.

Examples

- Purchase price or fair market value at time of acquisition
- Commissions
- Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessment, etc.)
- Accrued and unpaid taxes at date of purchase
- Other costs incurred in acquiring the land including
- Right-of-way
- Costs of razing a previous structure to build a new one. The cost for a new structure is capitalized.

Depreciation

Land is not depreciated.

Land Improvements

Definition

Land improvements consist of betterments, site preparation and site improvements (other than buildings) that ready land for its intended use. Land improvements include such items as excavation, non-infrastructure utility installation, driveways, sidewalks, parking lots, flagpoles, retaining walls, fences, and outdoor lighting. They can be exhaustible or non-exhaustible.

Examples

- Site improvements such as excavation, fill, grading and utility installation
- Removal, relocation, or reconstruction of property of others (railroad, telephone and power lines)
- Fencing
- Landscaping
- Parking lots

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- Outdoor basketball courts, tennis courts, etc.
 - Retaining walls

Capitalization

For land improvements to be capitalized, they must be part of a major repair or rehabilitation project, which increases the value, and/or useful life of the asset. 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 dirt parking lots with asphalt materials. Replacement or restoration to original utility level would not be capitalized. Determinations must be made on a case-by-case basis.

Depreciation

Depreciation is to start the fiscal year after the project is substantially completed.

Buildings

Definition

A building is a structure permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable. The amount recorded should include all costs directly related to its acquisition, including expenditures incurred to place the building in usable condition for the purchaser. These include all costs that are directly and clearly associated with the acquisition, development, and construction of a real estate project, and also include indirect costs, such as construction administration.

Examples of Expenditures to be Capitalized as Buildings

Purchased Buildings

- Original purchase price
- Expenses for modeling, 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 or lead 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 the asset into operation

Constructed Buildings

- Completed project costs (labor, materials)
- Interest accrued during construction, if material

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

Costs to be Expensed

- Expenses occurring prior to construction of the new building being probable (feasibility studies)
- Asbestos removal from prior structure
- General and administrative expenses not associated with a professional fee contract which is explicitly engaged for the purpose of project management
- Expenses occurring after the building is deemed substantially completed
- Replacement components that restore current expected capabilities but do not significantly add value to the building (replacing telephone wiring)

Depreciation

Depreciation is to start the fiscal year after the building is substantially completed.

Building Improvements

Definition

Building improvements are capital events that materially extend the useful life of a building or increase the value of a building or both. 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, or the expenditure increases the useful life or value of the building.

Examples

- Conversion of attics, basements, etc. to useable office, clinic, research or classroom space
- Structures attached to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.

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- 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
 - Swimming pools
 - 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)

Capitalization

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. 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 be capitalized, such as replacing telephone wiring to restore original utility. Determinations must be made on a case-by-case basis.

Costs to be Expensed

The following are examples of expenditures not capitalized as improvements to buildings. Instead, these items should be recorded as maintenance expenditures:

- 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
- 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

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- 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

Depreciation

Depreciation is to start the year after the project is substantially completed.

Portable Buildings

Definition

A portable building is a building designed and built to be movable, and is not intended to be located.

Examples

- Temporary site offices
- Classroom buildings

Sales/Disposals

When an asset is sold, a gain or loss shall be recognized when:

- Cash is exchanged and the amount paid does not equal the net book value of the asset
- Cash is not exchanged and the value received is different than the book value

When an asset is sold, a gain or loss shall not be reported when:

- Cash exchanged equals the net book value
- Cash is not exchanged and the value received equals the asset book value

For further information on disposal of College District property see [C.2.7.3](#).

Depreciation

Depreciation is to start the year after the project is substantially completed.

Machinery and Equipment

Definition

Machinery and equipment are fixed or movable tangible assets to be used for operations and the benefits of which extend at least the minimum threshold from the date acquired and rendered into service. Improvements or additions to existing personal property that constitute a capital

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outlay or increase the value or life of the asset should be capitalized as a betterment and recorded as an addition of value to the existing asset. Costs of extended warranties and/or maintenance agreements, which can be separately identified from the cost of the equipment, should not be capitalized. Large purchases of furniture and equipment to equip new buildings are not capitalized if individual items are below the threshold, but may be added to the inventory control system.

Modular furniture purchases will not be considered a fixed asset purchase and will not be tagged for inventory control purposes.

Examples

- Office equipment
- Furniture
- Computers
- Vehicles
- Heavy Equipment
- Computer hardware
- Small Equipment and Tools
- Lawn maintenance equipment, compressors and tool kits

Acquisition Cost

Capital assets shall be recorded at their historical costs, or estimated historical cost if the actual historical cost is unknown. Cost includes freight and transportation costs and any ancillary costs (installation, modifications, attachments, accessories) that are necessary to place the asset in use.

Donations

Donations are voluntary contributions of resources to the College District and acceptance must be Board approved. Donated capital assets shall be reported at fair market value plus ancillary charges, if any. Governmental funds will have to meet the standards of GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

- Donations must be recorded and reported at fair market value on the date of acquisition
- 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

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In some cases, donated capital assets are given with the stipulation 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.

For further information on donations and grants from private sources see [C.1.3.1](#).

Leased Equipment

Equipment shall be capitalized if the lease agreement meets any one of the following criteria, otherwise the cost shall be expensed:

- 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 equal to 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 market value of the leased property

Sales/Disposals

When an asset is sold, a gain or loss shall be recognized when:

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- Cash is not exchanged and the value received is different than the book value

When an asset is sold, a gain or loss shall not be reported when:

- Cash exchanged equals the net book value
- Cash is not exchanged and the value received equals the asset book value

For further information on disposal of College District property, see [C.2.7.3](#).

Depreciation

Depreciation begins in the year bought. First year’s depreciation is prorated using the depreciation start date.

Tagging and Tracking

The College District tags and tracks all equipment costing \$1,000 or more and all computers regardless of price. To facilitate this process, the department is responsible for the equipment ordered. The department will notify Inventory Control of any direct deliveries received, the movement of equipment and any equipment which is obsolete or no longer needed. Inventory Control is responsible for the disposal of all equipment/furniture regardless of cost. Many times items are bought as part of a construction contract such as Guaranteed Maximum Price (GMP) Purchase Orders or are part of a technology system. All items meeting the tagging requirements

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should be charged to the correct expense and should be broken out for appropriate individual tagging.

Infrastructure

Definition

Infrastructure assets are long-lived and are normally 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.

Examples

- Roads, streets, curbs, gutters, sidewalks, fire hydrants
- Bridges
- Drainage facilities
- Water mains and distribution lines
- Fiber optic and telephone distribution systems
- Light system (traffic, outdoor, street, etc.)
- Signage
- Sewer systems
- Water systems, including reservoirs
- Electrical substations

Infrastructure Improvements

Infrastructure improvements are 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.

Jointly Funded Infrastructure

Infrastructure paid for jointly by multiple governmental entities should be capitalized by the entity responsible for future maintenance.

Maintenance Costs

Maintenance costs are recurring costs that allow an asset to continue to be used during its originally established useful life. Maintenance costs are expensed in the period incurred.

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Additions and Improvements

Additions and improvements are those capital outlays that generally increase the capacity 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. The cost of additions and improvements should be capitalized.

Depreciation

Depreciation is to start the fiscal year after the project is substantially completed.

Software

Definition

Software is acquired, internally developed, or modified solely to meet the entity's internal needs.

Capitalize or Expense

Bought software for capitalization purposes is defined as one license with a cost of \$5,000 and above and has a life expectancy of at least five years. The question then becomes what to capitalize or expense for internally developed software. Governmental Accounting Standards Board Statement No. 51 provides the following guidance in this respect.

1. Outlays incurred related to the development of an internally generated intangible asset that is identifiable should be capitalized only upon the occurrence of all of the following:
 - a. Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project.
 - b. Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity.
 - c. Demonstration of the current intention, ability, and presence of effort to complete or, in the case of multiyear project, continue development of the intangible asset.

Only outlays incurred subsequent to meeting the above criteria should be capitalized.

Outlays incurred prior to meeting those criteria should be expensed as incurred.

2. Computer software is a common type of intangible asset that is often internally generated. Computer software should be considered internally generated if it is developed in-house by the District's personnel or by a third-party contractor on behalf of the District. Commercially available software that is purchased or licensed

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- by the District and modified using more than minimal incremental effort before being put into operation also should be considered internally generated for purposes of this statement. For example, licensed financial accounting software that the District modifies to add special reporting capabilities would be considered internally generated.
3. The activities involved in developing and installing internally generated computer software can be grouped into the following stages:
 - a. Preliminary Project Stage. Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software.
 - b. Application Development Stage. Activities in this stage include the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing, including the parallel processing phase.
 - c. Post-Implementation/Operation Stage. Activities in this stage include application training and software maintenance.

Data conversion should be considered an activity of the application development stage only to the extent it is determined to be necessary to make the computer software operational, that is, in condition for use. Otherwise, data conversion should be considered an activity of the post-implementation/operation stage.
 4. For internally generated software, the criteria in paragraph 1 should be considered to be met only when both of the following occur:
 - a. The activities noted in the preliminary project stage are completed.
 - b. Management implicitly authorizes and commits to funding, at least currently in the case of a multiyear project, the software project.

Accordingly, outlays associated with activities in the preliminary project stage should be expensed as incurred. For commercially available software that will be modified to the point that it is considered internally generated, (a) and (b) above generally could be considered to have occurred upon the District's commitment to purchase or license the computer software.
 5. Once the criteria in paragraph 1 have been met, as described in the preceding paragraph, outlays related to activities in the application development stage should be capitalized. Capitalization of such outlays should cease no later than the point at which the computer software is substantially complete and operational.

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6. Outlays associated with activities in the post-implementation/operation stage should be expensed as incurred.
7. The activities within the stages of development described in paragraph 3 may occur in a sequence different from that shown in that paragraph. The recognition guidance for outlays associated with the development of internally generated computer software set forth above should be applied based on the nature of the activity, not the timing of its occurrence. For example, outlays associated with application training activities that occur during the application development stage should be expensed as incurred.
8. Outlays associated with an internally generated modification of computer software that is already in operation should be capitalized in accordance with paragraphs 4 and 5 if the modification results in any of the following:
 - a. An increase in the functionality of the computer software, that is, the computer software is able to perform tasks that it was previously incapable of performing.
 - b. An increase in the efficiency of the computer software, that is, an increase in the level of service provided by the computer software without the ability to perform additional task.
 - c. An extension of the estimated useful life of the software.

If the modification does not result in any of the above outcomes, the modification should be considered maintenance, and the associated outlays should be expensed as incurred.

Examples

- SCT Banner system
- Blackboard
- Internally created software

Impaired software should be removed from the general ledger, both obsolete and incompletely installed software. Once a project is deemed inoperable capitalization should stop.

Depreciation

Depreciation is to start the fiscal year after capitalization.

Library Books

Definition

Campus library books which are used by students for educational and research purposes.

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Examples

- Fiction Books
- Encyclopedias
- Reference Books

Donations

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- Donations must be recorded and reported at fair market value on the date of acquisition.
- 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 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.

For more information on donations and grants from private sources see [C.1.3.1](#).

Sales/Disposals

When an asset is sold, a gain or loss shall be recognized when:

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When an asset is sold, a gain or loss shall not be reported when:

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For more information on disposal of College District property, see [C.2.7.3](#).

Depreciation

Total purchases, net of deletions, are to be depreciated as one annual component starting with the fiscal year after purchase. Deletions for the year reduce the Library Book cost balance and are

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deducted from the oldest accumulated depreciation. Addition and deletion information is provided by individual college library officials.

Works of Art

Definition

Works of art and historical treasures are collections or individual items of significance that are owned which are not held for financial gain, but rather for public exhibition, education or research in furtherance of public service.

If a collection is held for financial gain and not capitalized, disclosures should be made in the Notes to Financial Statements that provide a description of the collection and the reasons these assets are not capitalized. When donated collection items are added to noncapitalized collections, program expense equal to the amount of revenues should be recognized.

Examples

- 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 such as monuments or statues (example: Chief Kisco statue)

Donations

Donations are voluntary contributions of resources to the College District and acceptance must be Board approved. Donated capital assets shall be reported at fair market value plus ancillary charges, if any. Governmental funds will have to meet the standards of GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

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In some cases, donated capital assets are given with the stipulation that the assets cannot be sold, disbursed or consumed until a specified number of years have passed or a specific event

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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.

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For further information on disposal of College District property see [C.2.7.3](#).

Depreciation

Works of Art are not depreciated.

Leasehold Improvements

Definition:

Additions, alterations, remodeling, or renovations performed on a leased property.

Examples

- Wallpaper
- Cabinets
- Landscaping
- Window Treatments
- Carpeting/Flooring

Depreciation

Depreciation is to start the fiscal year after capitalization.

Technology Systems

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Definition

A combination of technology items which comprises a system. Includes but is not limited to wiring, cameras, access points, monitors and servers. Individual assets within the system which meet the capitalization threshold should be individually added to the property records. If the total cost less the cost of the individual items over \$5,000 meets the capitalization threshold and useful life, the project may be capitalized.

Examples

- Telephone System
- Wi-Fi Network
- Smart Classroom

Sales/Disposals

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Depreciation

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