

Capital Asset Guide

New Mexico State University



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1. Introduction

This capital asset guide is designed to provide a basic level of information regarding equipment and capital projects to business managers, the Office of Facilities and Services, internal and external auditors, and the University's customers and peers. It is divided into 5 sections, with additional information provided in the appendix section. Whenever possible references to the NMSU Business Procedures Manual (BPM) or the NMSU Administrative Rules and Procedures Manual are listed, and in cases of incongruence those manuals take precedent over the capital asset guide.

<https://af.nmsu.edu/bpm/>

<https://manual.nmsu.edu/policies-and-procedures/>

Most capital projects and all large capital equipment purchases (greater than \$10,000) are purchased using Plant Funds, which are monitored by Property Accounting staff. Funds are 6 digit numbers and Plant Funds are distinguished from other funds by having the second digit always the number 8 (e.g. 180000).

Regardless of source of funds (Plant or Departmental) proper account coding is what allows the Property Accounting staff to ensure that capital projects and equipment are correctly included in the University financial statements. During the requisition/purchasing process business managers communicate the capital expenditures, to Property Accounting through the use of Commodity codes and Account Codes.

All Commodity codes are 4 digits long and the last 2 digits communicate if the commodity is capital or non-capital; codes ending in XX00 are capital, while codes ending in XX99 are non-capital. The Account Codes, which are 6 digits long, also communicate if an item is capital; account codes beginning with 78XXXX are capital account codes, all others are non-capital. The following tables list the most commonly used equipment account codes and projects account codes.

Commonly Used Equipment and Software Account Codes:

Purpose	Account Codes
NMSU owned capital equipment purchases (cost greater than \$5K)	780200 – Furn and Equipment GT \$5,000
NMSU owned capital software purchases. Software must be greater than \$5K and considered Perpetual to use this code	786000 – Software GT \$5,000 if Perpetual
NMSU owned capital equipment purchases from Federal Funds	780300 – Equipment GT \$5,000 purchased with Federal Funds
NMSU owned non-capital equipment purchases (items costing between \$1K and \$5K)	740100* – Furniture and Equipment LT \$5,000
NMSU owned software costing less than \$5K or any cost if the software is considered an annual license.	766100** – Software LT \$5,000 or Subscription

*These items are expensed when purchased rather than being capitalized but are tagged.

**These items are expensed when purchased rather than being capitalized and are also not tagged.

Commonly Used Capital Project Account Codes:

Purpose	Account Codes
Land Acquisition	782100 - Land
Demolition of buildings, infrastructure, grading, etc. of newly acquired property	782110 - Site Preparation
Internal project management fees incurred by Facilities and Services (FS) or Facilities, Planning and Construction (FPC)	782450 - PPD Project Admin Fee
Design and blueprints prepared by an independent architect or engineering firm or project/construction management services	782500 - External Architect Engineer Inspection
Capital construction projects of buildings or infrastructure assets completed internal forces	782600 - PPD Construction
Capital construction projects conducted by an independent construction company	782700 - Construction External Contractor
Initial modular office systems, divider walls, elevator improvements, alarm systems, electrical and communication upgrades within an owned existing building structure	782800 - Miscellaneous Buildings
Installation of water, gas and sewer lines, tunnels, external lighting, communication networks outside of a building structure	782900 - Utilities
Re-roof, repave, structural renovation of owned and existing buildings and infrastructure	783300 - Major Repairs and Renovations
Rechanneling of drainage networks, improvements to land	783500 – Land Improvements

After expenses are recorded for capital equipment and projects Property Accounting analyzes the expenses and takes appropriate action to record the capital asset. Some items are capitalized automatically by Banner (like correctly coded Equipment purchases), while others are researched and manually capitalized by the Property Accounting staff (like Buildings, Infrastructure, and Library books).

When assets are capitalized they are separated, based on funding source, into one of the six *Investment in Plant* funds, which represent the five campus locations and the Physical Science Laboratory (PSL). The table below lists the six funds as well as the specific Asset account codes that are used to separate each item based on its asset type (i.e. Land, Building, Equipment, etc.).

Investment in Plant Fund	Account Codes
189000 – Las Cruces (Main) Campus	118100 – Land
289000 – Alamogordo Branch Campus	118101 – Land Improvements
389000 – Carlsbad Branch Campus	118200 – Buildings
489000 – Dona Ana Branch Campus	118300 – Building Fed Share
589000 – Grants Branch Campus	118400 – Infrastructure - Communications [901]
789000 – Physical Science Laboratory	118410 – Infrastructure - Pavement Systems [900]
	118420 – Infrastructure – Utilities [902]
	118430 – Infrastructure – Landscaping [903]
	118500 – Construction in Progress
	118600 – Equipment
	118610 – Equipment Federal Title
	118620 – Equipment State Title
	118630 – Equipment Private Title
	118650 – Accumulated Depreciation
	118900 – Library Books
	118950 – Software

2. Equipment

Equipment is divided into three categories: Capital, Non-Capital, and Not-Tagged. The following subsections discuss each of those categories. See section 5 for the definition of equipment.

Capital Equipment:

This generally refers to tagged equipment which is *owned* by NMSU and included on NMSU's *Capital Asset List* (see Note 5 of the Financial Statements). The current threshold for equipment capitalization is \$5,000, which includes any freight and installation charges associated with the purchase. Capital equipment is subject to the NMSU annual inventory process [*BPM 4A.10 PHYSICAL INVENTORY*] and disposals of capital assets must be approved by the Board of Regents per state statute [*13-6-1 NMSA*].

Non-Capital Equipment:

This generally refers to tagged equipment which is in the *custody* of NMSU but not included on NMSU's *Capital Asset List*, either because it was below NMSU's capitalization threshold or because it is not *owned* by NMSU. NMSU currently tags as non-capital any NMSU *owned* equipment with an acquisition cost between \$1,000 and \$4,999. NMSU also tags as non-capital any Government Furnished Equipment (GFE) regardless of acquisition cost, and any Contractor Acquired Property (CAP) with an acquisition cost greater than \$5,000 where ownership vests with the contracting agency. For CAP where ownership vests with NMSU the \$1,000 and \$5,000 thresholds are used to determine if the property is considered capital or non-capital. Non-capital equipment is subject to the NMSU annual inventory process [*BPM 4A.10 PHYSICAL INVENTORY*] and NMSU disposal procedures [*4A.15 DISPOSAL OR TRANSFER*].

Any Federal, State, or Privately owned items must have prior approval from the Property Accounting Manager before being disposed.

Not-Tagged Equipment and Sensitive Property:

NMSU owned equipment with acquisition cost less than \$1,000 are not-tagged and are not subject to the NMSU annual inventory process.

Sensitive Property is any item that costs less than the established capitalization or tagging threshold, that is susceptible to theft because it is easily converted to personal use or can be readily sold, such as, but not limited to, computers, tablets, or cameras.

Sensitive Property is not assigned a University tag/barcode and is not subject to the annual inventory process, but individual departments are still responsible for the care and custody of Sensitive Property. Departments should maintain a list of Sensitive Property and may assign a departmental tag/barcode (if sufficiently different from the University tag/barcode) to aid in the tracking of that Sensitive Property.

Software:

There are generally two classifications for Software is either subscription or perpetual. Software that is considered subscription must be renewed each year for the software to continue to work. Software that is perpetual typically grants the rights to use the software indefinitely without the need to pay additional annual fees. Some perpetual software requires a minimal maintenance fee, which is a small portion of the initial software costs. If software requires an annual maintenance fee that approximates the initial costs it is likely subscription software rather than perpetual software.

All software licenses with an initial cost less than \$5,000 and any software license (regardless of cost)

that is considered a subscription, annual license, or software as a service (SaaS) should be expensed in the period purchased. Non capital expense code 766100 should be used for these software purchases.

All software licenses with an initial cost greater than \$5,000 which are considered Perpetual use software licenses (a.k.a permanent use) should be coded with Capital expense account 786000. The type of software will be issued a university barcode label and will be tracked as part of the annual inventory process. Tags for this software should be placed in a sheet of paper to be maintained by the Equipment manager for that departments inventory. Once that software is permanently uninstalled Property Accounting/Central Property must be notified by way on an Inventory Change Report (ICR) form.

A third, less common software type, is internally developed software. The costs from internal development software include:

- External direct costs of materials and services (third party fees for 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

Departments working on internally developed software should contact the Property Accounting Office to discuss project cost tracking and appropriate timeline for software capitalization. Once the project is complete the software will be assigned a university barcode and will be tracked as part of the annual inventory process (similar to perpetual software above).

Equipment Tagging

(see also BPM 1C.20.00 Equipment Identification)

All capital and non-capital equipment is identified with a bar code label and assigned an inventory control number. It will remain so identified as long as it is in the care, custody and control of the University. Inventory tags are removed or obliterated from the equipment only when sold, scrapped, or otherwise disposed of. The inventory control number is not changed even if custody of the equipment is transferred through an ICR. Should the bar code label be accidentally or mistakenly obliterated, defaced or removed, the equipment will be marked again with the original bar code number.

Bar code label prefixes are assigned as follows:

- U – University owned
- F – Federal Government owned
- S – State of New Mexico owned
- P – Privately owned

The application of the bar code label to the equipment is the responsibility of the Central Receiving Office; however, this function may be delegated to the receiving department or the department having custody when deemed appropriate. The bar code label is applied to the actual unit unless the size or nature of the unit makes it impractical, or the equipment is an accessory and attached to, or otherwise a part of, a unit of tagged equipment, and is required for its normal operation. In the latter case, such items are entered and described on the property record of the equipment to which, or of which, it is otherwise a part. The bar code label should be affixed to the equipment adjacent to the manufacturer's nameplate as long as it is readily visible. Otherwise, the bar code label will be affixed in a clearly visible location and not in a position requiring movement of the equipment for tag number verification.

Example of University owned Bar Code Labels:



Example of Federal Government owned Bar Code Labels:



Government Owned Property:

(see also BPM 1C.10.10 Government Inventory)

In order to comply with the rules of FAR 52.245-1(f)(1)(i-x) NMSU has established a Property Management System and operating procedures that enable the 10 outcomes listed below:

1) Acquisition of Property. The Contractor shall document that all property was acquired consistent with its engineering, production planning, and property control operations.

BPM Reference: 1C.15.00 Acquisition of Equipment, 1C.15.25 Government Furnished Equipment (GFE), 1C.30 Contractor Acquired Equipment (CAP)

2) Receipt of Government Property. The Contractor shall receive Government property and document the receipt, record the information necessary to meet the record requirements of paragraph (f)(1)(iii)(A)(1) through (5) of this clause, identify as Government owned in a manner appropriate to the type of property (e.g., stamp, tag, mark, or other identification), and manage any discrepancies incident to shipment.

(A) Government-furnished property. The Contractor shall furnish a written statement to the Property Administrator containing all relevant facts, such as cause or condition and a recommended course(s) of action, if overages, shortages, or damages and/or other discrepancies are discovered upon receipt of Government-furnished property.

(B) Contractor-acquired property. The Contractor shall take all actions necessary to adjust for overages, shortages, damage and/or other discrepancies discovered upon receipt, in shipment of Contractor-acquired property from a vendor or supplier, so as to ensure the proper allocability and allowability of associated costs.

BPM Reference: 1C.15.00 Acquisition of Equipment, 1C.15.25 Government Furnished Equipment (GFE), 1C.30 Contractor Acquired Equipment (CAP)

3) Records of Government property. The Contractor shall create and maintain records of all Government property accountable to the contract, including Government-furnished and Contractor-acquired property.

BPM Reference: *1C.10.05 Property Records, 1C.10.10 Government Inventory*

4) Physical inventory. The Contractor shall periodically perform, record, and disclose physical inventory results. A final physical inventory shall be performed upon contract completion or termination. The Property Administrator may waive this final inventory requirement, depending on the circumstances (e.g., overall reliability of the Contractor's system or the property is to be transferred to a follow-on contract).

BPM Reference: *4A.10.1 Inventory Procedures, 4A.10.2 Inventory upon Termination or Completion of Government Contract, 4A.10.3 Inventory Procedures Training*

5) Subcontractor control.

(A) The Contractor shall award subcontracts that clearly identify items to be provided and the extent of any restrictions or limitations on their use. The Contractor shall ensure appropriate flow down of contract terms and conditions (e.g., extent of liability for loss of Government property).

(B) The Contractor shall assure its subcontracts are properly administered and reviews are periodically performed to determine the adequacy of the subcontractor's property management system.

BPM Reference: *1C.15.35 Government Property in the Custody of Sub-Contractors*

6) Reports. The Contractor shall have a process to create and provide reports of discrepancies, loss of Government property, physical inventory results, audits and self-assessments, corrective actions, and other property-related reports as directed by the Contracting Officer.

PA Procedure: PA assists PI's in filing annual property reports with ONR and other federal agencies and final property reports as awards end. PA participates in the annual inventory process and offers suggestions for process improvements. PA or someone assigned by PA performs an annual assessment of the property system (see self-assessment below) and reports any significant findings to management.

BPM Reference: *1C.00 Property Accounting, 1C.15.30 Contractor Acquired Property (CAP), 1C.20.05 Government Inventory, 1C.30.00 Department Head and Principal Investigator (PI) Responsibilities*

7) Relief of stewardship responsibility and liability. The Contractor shall have a process to enable the prompt recognition, investigation, disclosure and reporting of loss of Government property, including losses that occur at subcontractor or alternate site locations.

BPM Reference: *4A.10.1 Inventory Procedures, 4A.10.2 Inventory upon Termination or Completion of Government Contract, 4A.10.3 Inventory Procedures Training, 1C.15.35 Government Property in the Custody of Sub-Contractors, 1C.20.05 Government Inventory*

8) Utilizing Government property.

(A) The Contractor shall utilize, consume, move, and store Government Property only as authorized under this contract. The Contractor shall promptly disclose and report Government property in its possession that is excess to contract performance.

(B) Unless otherwise authorized in this contract or by the Property Administrator the Contractor shall not commingle Government material with material not owned by the Government.

BPM Reference: *1C.20.00 Equipment Identification*

9) Maintenance. The Contractor shall properly maintain Government property. The Contractor's maintenance program shall enable the identification, disclosure, and performance of normal and routine preventative maintenance and repair. The Contractor shall disclose and report to the Property Administrator the need for replacement and/or capital rehabilitation.

BPM Reference: *1C.30.00 Department Head and Principal Investigator (PI) Responsibilities*

10) Property closeout. The Contractor shall promptly perform and report to the Property Administrator contract property closeout, to include reporting, investigating and securing closure of all loss of Government property cases; physically inventorying all property upon termination or completion of this contract; and disposing of items at the time they are determined to be excess to contractual needs.

PA Procedure: PA assists PI's in filing annual property reports with ONR and other federal agencies and final property reports as awards end. PA participates in the annual inventory process and offers suggestions for process improvements. PA or someone assigned by PA performs an annual assessment of the property system (see self-assessment below) and reports any significant findings to management.

BPM Reference: *1C.00 Property Accounting, 1C.15.30 Contractor Acquired Property (CAP), 1C.20.05 Government Inventory, 1C.30.00 Department Head and Principal Investigator (PI) Responsibilities*

Self-Assessment of Property System

To further comply with FAR 52.245-1(b)(4) NMSU performs "periodic internal reviews, surveillances, self-assessments, or audits," of that system and makes results of such review and audit pertaining to Government property available to the Property Administrator (ONR).

See appendix I for NMSU Property System Self-Assessment Process.

3. Capital Projects

Most capital projects are tracked using plant funds, which are monitored by Property Accounting. Property Accounting assess new projects to determine if they are expected to meet the criteria for being capital (see below) and the thresholds for capitalization (\$100K for buildings, \$50K for infrastructure). Projects which are deemed capital should only use the capital expense account codes (see p.3-p.4), unless non-capital equipment is being purchased. On the other hand, projects deemed to be non-capital should only use non-capital account codes.

Periodically throughout the year, and again at yearend, Property Accounting will evaluate closed projects (or projects at least 90% complete) and capitalize them (by creating a Banner fixed asset record). The following list shows the types of expenses which are to be included when certain assets are capitalized.

Buildings [Asset Account 118200]:

Purchased Buildings

- Original purchase price
- Expenses for remodeling, 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 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 or render the asset into operation

Constructed Buildings

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

Building Improvements [Asset Account 118200]:

Note: 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, such as renovation of a student center. 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. Determinations must be made on a case-by- case basis.

- Conversion of attics, basements, etc., to usable office, clinic, research or classroom space
- Structures attached to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.
- 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
- 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).
- Other costs associated with the above improvements

Building Improvements to be Recorded as Maintenance Expense [Non Capital Account (e.g. 754XXX)]:

- 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
- Interior decoration, such as draperies, blinds, curtain rods, wallpaper
- Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.
- 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
- 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

Infrastructure [Asset Account 118400, 118410, 118420, and 118430]:

- **[901 – 118400] Communications Systems** – fiber optic cabling, telephone distribution systems (between buildings), radio or television transmitting tower
- **[900 – 118410] Pavement Systems** – highways, roads, streets, curbs, gutters, sidewalks, fire hydrants, guard rails, parking lots, driveways, and parking barriers (if permanently affixed)
- **[902 – 118420] Utilities** – gas distribution systems, electric, water, gas (main lines and distribution lines, tunnels), chilled water, geothermal, septic systems
- **[903 – 118430] Other** – irrigation systems, street signage, light system (traffic, outdoor, street, etc.) and landscaping.

Land [Asset Account 118100]:

- Purchase price or fair market value at time of gift Commissions
- Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.)
- Land excavation, fill, grading, drainage
- Demolition of existing buildings and improvements (less salvage)
- Removal, relocation, or reconstruction of property of others (railroad, telephone and power lines)
- Interest on mortgages accrued at date of purchase Accrued and unpaid taxes at date of purchase Other costs incurred in acquiring the land
- Water wells (includes initial cost for drilling, the pump and its casing)
- Right-of-way

Land Improvements [Asset Account 118101] :

- Fencing and gates
- Landscaping
- Outside sprinkler systems
- Recreation areas and athletic fields (including bleachers)
- Golf courses
- Paths and trails
- Swimming pools, tennis courts, basketball courts
- Fountains
- Plazas and pavilions
- Retaining walls

Library Books and Materials [Asset Account 118900]:

- Invoice price Freight charges handling
- In-transit insurance charges binding
- Electronic access charges
- Reproduction and like costs required to place assets in service, with the exception of library salaries

Works of Art and Historical Treasures [Non-capital]:

- 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

As an institute of higher education in existence for over 100 years, New Mexico State University has acquired significant collections of art, rare books, historical treasures and other special collections. The purpose of these collections is for public exhibition, education or research in furtherance of public service rather than financial gain. They are protected and preserved, and subject to the Regents' policies regarding accessioning and de-accessioning. However, because of their invaluable and irreplaceable nature, these collections have not been capitalized and are therefore not presented in the accompanying Statement of Net Position.

4. Depreciation

Depreciation is an accounting method of allocating the cost of the plant asset to each accounting period benefiting from the plant asset's use. This allows NMSU to match a portion of the cost of the plant asset to the revenue that it generates.

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. Expenditures for constructing the improvements should be charged to a fund within the plant fund and to an account code in the 782xxx or 783xxx series. Improvements made in lieu of rent should be expensed in the period incurred and charged to account code 753xxx. If the lease contains an option to renew and the likelihood of renewal is uncertain, the leasehold improvement should be written off over the remaining life of the remaining lease term or useful life of the improvement, whichever is shorter.

Equipment leases - are tested by property accounting to determine if they should be capitalized (capital leases) or expenses (operating leases) in accordance with the prescribed accounting guidance. Lease Capital equipment is assigned a university barcode and is depreciated over the life of the lease (if the items is to be returned) or the useful life of the equipment (if the intention is to purchase the item at the end of the lease term).

All other Capital assets - are depreciated over their estimated useful lives unless they are inexhaustible. Depreciation expense is calculated and stored by the property management system for equipment, software, buildings and infrastructure; calculation of depreciation for library books is performed manually by Property Accounting staff. A full year depreciation amount will be taken for every asset class regardless of the day during the fiscal year when the asset is placed into service. Accumulated depreciation will be summarized and posted electronically by the property management system to the accounting general ledger. The account code used to record depreciation expense is 785080 and the accumulated depreciation account code is 118650.

Depreciation Method:

NMSU uses the straight-line method of depreciation (capitalized cost divided by useful life) for the following capital assets with the designated useful life and dollar thresholds:

Standard Depreciation Table (non-componentized buildings)

Class of Asset	Useful Life	Threshold for Capitalization
Land / Land Improvements*	N/A	Land \$1 / Land Improvements \$50K
Construction Work in Progress (CWIP)*	N/A	All current year expenses for projects expected to meet the capitalization thresholds are capitalized as CWIP at the end of the fiscal year. In the year that the project either passes 90% completion, or finishes, the CWIP amounts are transferred to the appropriate capital account and depreciation is started.
New Buildings	40	\$100K and greater
Building Renovations	25	\$100K and greater
Infrastructure – Communication	10	\$50K and greater
Infrastructure – Pavement	12	\$50K and greater
Infrastructure – Utilities	20	\$50K and greater
Infrastructure – Other	20	\$50K and greater
Equipment – Short Service Life	6	\$5K and greater
Equipment – Long Service Life	15	\$5K and greater
Software – Minor (cost <\$10K)	5	\$5K to \$10K
Software – Major (cost>\$10K)	10	\$10K and greater
Library Books (collections)	15	All expenses for additions to the library’s collection (publications and films, books, periodicals, and electronic information) are capitalized and depreciated as a group at the end of each fiscal year.
Works of Art/Historical Treasures	N/A	Expenses for works of arts or historical treasures are not capitalized but rather expenses as incurred. See note in section 3 of this guide regarding NMSU policy for works of art/historical treasures.

*These items are not depreciated. Land and land improvements are considered inexhaustible and never depreciated, while CWIP is temporarily not depreciated. Once a project is completed the CWIP is transferred to a building/infrastructure asset account and depreciated in accordance with that assets useful life.

NMSU has a policy to componentize certain research heavy building projects which allows the different sections of the building to depreciate at different rates. This is an allowable practice (per GASB / Federal Regulators) which results in certain parts of the building depreciating faster than other parts. The following table shows the component categories and component useful lives. To be eligible for componentization the building must meet the minimum componentization threshold set by NMSU as \$1M. Buildings costing less than \$1M are depreciated using a useful life of 25 or 40 years.

Componentized Buildings Depreciation Table

Class of Asset	Useful Life	Threshold for Capitalization
Floor Covering	12	Projects >\$1M are eligible for componentization. If a project is componentized all costs for that project must be assigned to a category (useful life) listed in this componentized building table.
Construction Interior and Roof Covering	20	See above
Heating and Ventilation / AC and Lighting Electrical	21	See above
Elevators, Fire Protection and Piping, Plumbing	23	See above
Site Preparation	25	See above
Exterior Walls	30	See above
Floor Structure, Foundation, Roof Structure, or Steel Frame	50	See above

5. Definitions

Acquisition Cost - Assets should be recorded and reported at their historical costs, which include the vendor's invoice (plus the value of any trade-in or allowance, if reflected on the invoice), plus sales tax, initial installation cost, modifications, attachments, accessories or apparatus necessary to make the asset usable and render it into service. Historical costs also include ancillary charges such as freight and transportation charges, site preparation costs and professional fees.

Additions and Improvements - Capital outlays that increase the capacity, the useful life 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. For example, a heating and cooling plant could be reengineered so that it produces the same temperature changes at reduced cost.

Assets Held in Trust - Capital assets held by NMSU on behalf of a non-university entity (such as art collections owned by families, estates and others) and that are under the temporary control of NMSU should be recorded as assets held for others by the Foundation until returned to the owners.

Assets Owned by the Federal Government - Capital assets that have been loaned to the university or acquired and charged to a federal award should be recorded per the guidelines in section *1C.10.10 Government Inventory*.

Building - A structure that is permanently attached to the land with a foundation, has a roof, is partially or completely enclosed by three walls, has one utility other than electricity and is not intended to be transportable or moveable, which is used for housing people, animals, plants or equipment. The capitalized value of buildings and building improvements is recorded in account code 118200, or 118300 if federal funds were used in the construction of the building or building improvement. Equipment permanently affixed to buildings should be included as part of the building.

Class B = non-bearing curtain walls, masonry, concrete, metal and glass panels, stone

Class D = almost any material except masonry or concrete; generally combustible construction

Building Improvements - Capital costs that increase the value of a building. 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. The depreciable life of the improvement is calculated separately from the original building cost.

Capital assets - are classified as real or personal property that have a value equal to or greater than the capitalization threshold for the particular classification of the asset and have an estimated life of one year or more.

Computation of Gain or Loss from Sale of Assets

To compute a gain or loss, proceeds received must be subtracted from the asset's net book value and in accordance with federal regulations.

Example:	Asset's Historical Cost	10,000
	Less Accumulated Depreciation	<u>(7,000)</u>
	Net Book Value \$	3,000
	Subtract Proceeds Received	<u>(2,000)</u>
	Loss from Sale of Asset \$	1,000

Computer Software - Colleges and universities are now required by the National Association of College and University Business Officers to adopt the American Institute of Certified Public Accountants (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. Minor software purchases are defined as purchases between the cost of \$5,000 and \$9,999 dollars and are depreciated over five years. Major software purchases are defined as purchases over \$10,000 or more and are depreciated over 10 years. The book value of capitalized software is recorded in account code 118950.

Internal Use Software - For software to be considered for internal use, the software must meet the following tests - it must be acquired, internally developed or modified solely to meet the university's internal needs, and during the software's development or modification, the university must not have a substantive plan to market the software externally to other organizations.

Capitalization of Internal Use Software Costs - Software implementation generally involves three phases. These phases and their characteristics are as follows:

Preliminary project phase - when conceptual formulation of alternatives, the evaluation of alternatives, a determination of existence of needed technologies and the final selection from among the alternatives is made.

Application development/implementation phase - Design of chosen path including software configuration and software interfaces, coding, installation of computer hardware, testing, including parallel processing phase, costs of training, employee and consultant travel expenses and consultant fees.

Post-implementation/operation phase - training and application maintenance activities incurred after phase two is complete.

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. Costs to develop or obtain software that allows for access or conversion of old data by new information systems should also be capitalized. General and administrative costs and overhead expenditures associated with software development should not be capitalized as costs of internal use software.

Capitalization of costs should begin when the preliminary project phase is complete and the university's management has implicitly or explicitly authorized or commits to funding the software project with the intent it will be completed and used to perform its planned functions. Capitalization should cease no later than the time at which substantial testing is complete and the software is ready for its intended purpose or rendered in service.

Construction Work in Progress (CWIP) - The economic construction activity status of buildings and

other structures, infrastructure (highways, energy distribution systems, pipelines, etc.), additions, alterations, reconstruction, installation, and maintenance and repairs, which are substantially incomplete. The account code to record CWIP is 118500.

Donated Assets - Donations are defined as voluntary contributions of resources to a governmental entity by an external entity. Donations should be reported at fair market value at the time of acquisition plus ancillary charges, if any. Fair value equals the amount at which an asset could be exchanged in a current transaction between willing parties.

Per GASB 72 donations must be recorded and reported at acquisition value on the date of donation. 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 (time requirement) 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.

Equipment - Movable tangible assets to be used for operations, the benefits of which is one year or more from the date of acquisition and placed into service. Improvements or additions to existing equipment that constitute a capital outlay or increase the value or life of the asset, which has an acquisition cost of \$5,000 or more, should be capitalized as a betterment and recorded separately, but shown as an attachment or component of the existing asset. The book value of University owned equipment is recorded in account code 118600. The University will record in the property management system equipment in the control of the University but owned by the federal (118610) or state government (118620) or a private entity (118630). Generally, capital equipment that is technical or electronic in nature and subject to functional obsolescence is assigned a useful life of six years. Capital equipment that is mechanical in nature is assigned a useful life of 15 years.

Jointly Funded - The property records will reflect the source of funds for equipment paid for jointly by the university and an external entity.

Leased Equipment – Leased equipment should be capitalized and have a bar-code label affixed to the equipment if the lease agreement meets any one of the following criteria:

1. The lease transfers ownership of the property to the lessee by the end of the lease term.
2. The lease contains a bargain purchase option.

3. The lease term is 75 percent or more of the estimated economic life of the leased property.

4. 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.

Monthly capital lease payments are charged to account code 780910. Leases that do not meet any of the above requirements should be recorded as an operating lease and the monthly lease payments are charged to account codes in the 753xxx series.

Exhaustible Collections or Items - Items whose useful lives are diminished by display or educational or research applications and are depreciated.

Inexhaustible Collection or Items – Items whose economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily 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. These assets are not depreciated.

Infrastructure - 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. Infrastructure assets are often linear and continuous in nature. NMSU's four infrastructure subsystems are:

- Pavement Systems (recorded in account code 118410)
- Communications Systems (recorded in account code 118400)
- Utilities (recorded in account code 118420)
- Other (recorded in account code 118430)

Infrastructure Improvements - 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 by 25 percent of the original cost or life period.

Infrastructure Modified Approach - The modified approach is an alternative to reporting depreciation for infrastructure assets that requires an asset management system, documentation that assets are being preserved at or above a condition level established by the government and depreciation is not reported. NMSU will depreciate capital assets rather than follow the modified approach. Jointly Funded Infrastructure - Infrastructure paid for jointly by the State and other governmental entities should be capitalized by the entity responsible for future maintenance.

Maintenance Costs – Costs that allow an asset to continue to be used during its originally established useful life, and should be expensed in the period incurred.

Preservation Costs – Costs that are generally considered to be those outlays that extend the useful life of an asset beyond its original estimated useful life, but do not increase the capacity or efficiency of the asset. Preservation costs should not be capitalized unless the original cost can be determined and the value written off along with the accumulated depreciation. The preservation cost will be depreciated over the appropriate useful life.

Land - 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. Land is characterized as having an unlimited life (indefinite) and is not depreciated. Donated land is recorded at the fair market value on the date of the donation. The book value of land is recorded in account code 118100.

Land Improvements - Betterments, site preparation, and site improvements (other than buildings and infrastructure) that ready land for its intended use. The costs associated with improvements to land are added to the cost of the land and are not depreciated. The account code used to record the value of land improvements is 118110.

Leasehold Improvements - Construction of new buildings or improvements made to existing

structures by the lessee, who has the right to use these leasehold improvements over the term of the lease. These improvements will revert to the lessor at the expiration of the lease. Moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement. See Section 2 – “Leasehold Improvements Depreciation Methodology.” Expenditures for leasehold improvements should be charged to account codes within the series of 782xxx and 783xxx and recorded in the plant fund. The capitalized costs should be recorded in account 118200 for buildings (118300 if the federal funds were used) and 118400 for infrastructure (118450 if federal funds were used).

Library Books and Materials - Library books are generally a literary composition bound into a separate volume and identifiable as a separate copyrighted unit. Library reference materials are information sources other than books which include journals, periodicals, microforms, audio/visual media, computer-based information, manuscripts, maps, documents, and similar items which provide information essential to the learning process or which enhance the quality of academic, professional or research libraries. Changes in value for professional, academic or research libraries may be reported on an aggregate net basis. Account code 118900 is designated for recording the book value of library books.

Other Improvements - Depreciable improvements made to a facility or to land that should be capitalized as betterments if the improvement is at the capitalization threshold or the expenditure increases the life or value of the asset by 25 percent of the original cost or life period.

Sale of Capital Assets – When an asset is sold to a non-state entity or another state agency, a gain or loss must be recognized in the annual report when:

- cash is exchanged and the amount paid does not equal the net book value of the asset
- cash is not exchanged and the asset is not fully depreciated or has a residual value

A gain or loss is not reported when:

- cash exchanged equals the net book value and the asset does not have a residual value
- cash is not exchanged and the asset is fully depreciated and has no residual value

Trade-in of Assets - Similar assets – surplus or salvage property can be offered as a trade-in on new property of the same general type if the exchange is in the best interest of the university. When recording a trade-in of similar assets, NMSU must use a book value basis for the assets surrendered or acquired.

When assets are exchanged and no monetary consideration is paid or received, the cost of the asset acquired is recorded at the carrying (book) value of the asset surrendered. Where monetary consideration is given, the new asset must be recorded at the sum of the cash paid plus the book value of the asset surrendered.

Dissimilar assets - when recording a trade-in of dissimilar assets: record the value of the asset being traded and the resulting transaction for acquiring the new asset, using the fair value of the asset being traded if cash is used to purchase the asset, NMSU must record the transaction for the new asset as cash paid plus the fair value of the asset surrendered

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 that requires the proceeds from sales of collection items to be used to acquire other items for collections.

A. Appendix Listing

Appendix I – Property Inventory Control Self-Assessment Certification Instructions / Certification Form
Appendix II - Property Inventory Control Self-Assessment Certification Criteria



Accounting and Financial Reporting

MSC AFR

New Mexico State University

P.O. Box 30001

Las Cruces, NM 88003-8001

Phone: (575) 646-1514 Fax: (575) 646-3900

Property Inventory Control Self-Assessment Certification – INSTRUCTIONS:

Overview: The following FAR guidance requires a *periodic self-assessment* of the property inventory control system at NMSU:

Requirement per FAR 52.245-1(b)(4):

The Contractor shall establish and maintain procedures necessary to assess its property management system effectiveness and shall perform periodic internal reviews, surveillances, self-assessments, or audits. Significant findings or results of such reviews and audits pertaining to Government property shall be made available to the Property Administrator.

In response to this requirement NMSU has implemented this procedure to periodically perform self-assessments of the property management system.

Process:

- 1) Review the 10 outcomes from FAR 52.245-1(f)(i) through (x) (see appendix I)
- 2) Select 1-4 of those outcomes and perform procedures to assess the effectiveness of NMSU's property management system at accomplishing those outcomes.
- 3) Fill out the Property Control Self-Assessment Certificate and return it, along with any relevant document to Property Accounting.

Procedures:

Procedures to assess effectiveness may include any of the following:

Inspection of records – looking at the PO, receiving doc's, Banner screens, or other records.

Inspection of Tangible – looking at physical assets.

Inquiry – speaking with individuals familiar with the process.

Observation – watching the process take place.

Sampling – selecting random records to evaluate

Documentation:

Any relevant documentation produced during the self-assessment, including the completed Property Control Self-Assessment Certificate (page 2) should be included with the final deliverables turned in to property accounting.

Conclusion:

Property Accounting will review the self-assessment documentation and provide a copy of that completed certificate to the Property Administrator at the Office of Naval Research (ONR), currently Rachel Gmyr.



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Property Inventory Control Self-Assessment Certification - FAR 52-245-1(b)(4)

Per FAR 52.245, A Property Management System must address 10 outcomes. During this self-assessment procedures were performed over the following outcomes (check all that apply):

- Acquisition of Property (CAP)
- Receipt of Government Property (GFE)
- Records of Government Property
- Physical Inventory
- Subcontractor Control
- Reports
- Relief of Stewardship
- Utilizing Government Property
- Maintenance
- Property Closeout

Please indicate any findings or recommendations below:

Per the requirements of FAR 52-245-1(b)(4) a self-assessment of the New Mexico State University property management system was conducted by:

Name and Title: _____ **Date:** _____

Signature _____

Property Inventory Control Self-Assessment Certification Criteria – [Appendix II]:

FAR 52.245-1(f) Contractor plans and systems.

(1) Contractors shall establish and implement property management plans, systems, and procedures at the contract, program, site or entity level to enable the following outcomes:

(i) Acquisition of Property. The Contractor shall document that all property was acquired consistent with its engineering, production planning, and property control operations.

(ii) Receipt of Government Property. The Contractor shall receive Government property and document the receipt, record the information necessary to meet the record requirements of paragraph (f)(1)(iii)(A)(1) through (5) of this clause, identify as Government owned in a manner appropriate to the type of property (e.g., stamp, tag, mark, or other identification), and manage any discrepancies incident to shipment.

(A) Government-furnished property. The Contractor shall furnish a written statement to the Property Administrator containing all relevant facts, such as cause or condition and a recommended course(s) of action, if overages, shortages, or damages and/or other discrepancies are discovered upon receipt of Government-furnished property.

(B) Contractor-acquired property. The Contractor shall take all actions necessary to adjust for overages, shortages, damage and/or other discrepancies discovered upon receipt, in shipment of Contractor-acquired property from a vendor or supplier, so as to ensure the proper allocability and allowability of associated costs.

(iii) Records of Government property. The Contractor shall create and maintain records of all Government property accountable to the contract, including Government-furnished and Contractor-acquired property.

(A) Property records shall enable a complete, current, auditable record of all transactions and shall, unless otherwise approved by the Property Administrator, contain the following:

- (1) The name, part number and description, National Stock Number (if needed for additional item identification tracking and/or disposition), and other data elements as necessary and required in accordance with the terms and conditions of the contract.
- (2) Quantity received (or fabricated), issued, and balance-on-hand.
- (3) Unit acquisition cost.
- (4) Unique-item identifier or equivalent (if available and necessary for individual item tracking).
- (5) Unit of measure.
- (6) Accountable contract number or equivalent code designation.
- (7) Location.
- (8) Disposition.
- (9) Posting reference and date of transaction.

(10) Date placed in service (if required in accordance with the terms and conditions of the contract).

(B) Use of a Receipt and Issue System for Government Material. When approved by the Property Administrator, the Contractor may maintain, in lieu of formal property records, a file of appropriately cross-referenced documents evidencing receipt, issue, and use of material that is issued for immediate consumption.

(iv) Physical inventory. The Contractor shall periodically perform, record, and disclose physical inventory results. A final physical inventory shall be performed upon contract completion or termination. The Property Administrator may waive this final inventory requirement, depending on the circumstances (e.g., overall reliability of the Contractor's system or the property is to be transferred to a follow-on contract).

(v) Subcontractor control.

(A) The Contractor shall award subcontracts that clearly identify items to be provided and the extent of any restrictions or limitations on their use. The Contractor shall ensure appropriate flow down of contract terms and conditions (e.g., extent of liability for loss of Government property).

(B) The Contractor shall assure its subcontracts are properly administered and reviews are periodically performed to determine the adequacy of the subcontractor's property management system.

(vi) Reports. The Contractor shall have a process to create and provide reports of discrepancies, loss of Government property, physical inventory results, audits and self-assessments, corrective actions, and other property-related reports as directed by the Contracting Officer.

(vii) Relief of stewardship responsibility and liability. The Contractor shall have a process to enable the prompt recognition, investigation, disclosure and reporting of loss of Government property, including losses that occur at subcontractor or alternate site locations.

(A) This process shall include the corrective actions necessary to prevent recurrence.

(B) Unless otherwise directed by the Property Administrator, the Contractor shall investigate and report to the Government all incidents of property loss as soon as the facts become known. Such reports shall, at a minimum, contain the following information:

(1) Date of incident (if known).

(2) The data elements required under (f)(1)(iii)(A).

(3) Quantity.

(4) Accountable contract number.

(5) A statement indicating current or future need.

(6) Unit acquisition cost, or if applicable, estimated sales proceeds, estimated repair or replacement costs.

(7) All known interests in commingled material of which includes Government material.

- (8) Cause and corrective action taken or to be taken to prevent recurrence.
- (9) A statement that the Government will receive compensation covering the loss of Government property, in the event the Contractor was or will be reimbursed or compensated.
- (10) Copies of all supporting documentation.
- (11) Last known location.
- (12) A statement that the property did or did not contain sensitive, export controlled, hazardous, or toxic material, and that the appropriate agencies and authorities were notified.

(C) Unless the contract provides otherwise, the Contractor shall be relieved of stewardship responsibility and liability for property when—

- (1) Such property is consumed or expended, reasonably and properly, or otherwise accounted for, in the performance of the contract, including reasonable inventory adjustments of material as determined by the Property Administrator;
- (2) Property Administrator grants relief of responsibility and liability for loss of Government property;
- (3) Property is delivered or shipped from the Contractor's plant, under Government instructions, except when shipment is to a subcontractor or other location of the Contractor; or
- (4) Property is disposed of in accordance with paragraphs (j) and (k) of this clause.

(viii) Utilizing Government property.

(A) The Contractor shall utilize, consume, move, and store Government Property only as authorized under this contract. The Contractor shall promptly disclose and report Government property in its possession that is excess to contract performance.

(B) Unless otherwise authorized in this contract or by the Property Administrator the Contractor shall not commingle Government material with material not owned by the Government.

(ix) Maintenance. The Contractor shall properly maintain Government property. The Contractor's maintenance program shall enable the identification, disclosure, and performance of normal and routine preventative maintenance and repair. The Contractor shall disclose and report to the Property Administrator the need for replacement and/or capital rehabilitation.

(x) Property closeout. The Contractor shall promptly perform and report to the Property Administrator contract property closeout, to include reporting, investigating and securing closure of all loss of Government property cases; physically inventorying all property upon termination or completion of this contract; and disposing of items at the time they are determined to be excess to contractual needs.

(2) The Contractor shall establish and maintain Government accounting source data, as may be required by this contract, particularly in the areas of recognition of acquisitions, loss of Government property, and disposition of material and equipment.