



**New Mexico Institute of Mining & Technology
Asset Capitalization Policy
Revised February 15, 2013**

Introduction

Effective July 2002, New Mexico Tech implemented Governmental Accounting Standards Board (GASB) Statement No. 34 and No. 35, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments and Public Colleges and Universities. The reporting model required infrastructure reporting and depreciation accounting.

This Capital Asset Policy will assist in reporting requirements. Included in this policy are asset category definitions, capitalization thresholds, depreciation methodologies, and examples of expenditures for each class of assets. Guidelines for leasehold improvements and construction in progress have been included.

Depreciating Capital Assets

Capital assets will be depreciated over their estimated useful lives unless they are inexhaustible. See "inexhaustible asset," for a definition. The straight-line depreciation method (historical cost divided by useful life) will be used by New Mexico Tech. Depreciation data will be calculated and posted by the Banner Fixed Assets module annually.

Capitalized equipment is categorized into four (4) groups for depreciation; computers having a three (3) useful life, equipment having a five (5) year useful life, vehicles having a seven (7) year life and heavy equipment having a twelve (12) year useful life. Depreciation for equipment is calculated proportionately according to the date the equipment was acquired. The Banner depreciation process to calculate and post depreciation for equipment is run annually.

Assets will be depreciated straight line. Land Improvements, Infrastructure, Buildings and Software use a half year convention.

Definitions-

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

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 (excluding in-house labor), 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 or efficiency of the asset should be capitalized. A change in capacity increases the level of service provided by an asset. A change in efficiency maintains the same service level, but at a reduced cost. For example, 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 New Mexico Tech 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 New Mexico Tech should be recorded as assets until returned to the owners. Assets owned by the federal government that have been loaned to the university should be coded using New Mexico Tech procedures, which is with federal ownership inventory tags.

Building - A structure that is permanently attached to the land with a foundation, has a roof, is partially or completely enclosed by four walls, has one utility other than electricity, and it is not transportable or moveable, and it is used for housing people, animals, plants or equipment. Equipment permanently affixed to buildings should be included as part of the building.

Building Improvements - Capital expenditures that increase the value of a building. A building improvement should be capitalized as betterment and recorded as an addition of value to the existing building if the expenditure for the improvement is at the capitalization threshold. Non-Capital replacement materials are expensed within the period of installation.

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

Net Book Value - asset's historical cost less the accumulated depreciation.

Computer Software - Colleges and universities are required 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). These requirements 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 \$50,000 dollars, and they are depreciated over five (5) years. Major software purchases are defined as purchases over \$50,000 and are depreciated over ten (10) years.

Internal Use Software - For software to be considered for internal use, the university must meet the following tests: The software must be acquired, internally developed or modified solely to meet the university's internal needs. 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 Software Costs - Software implementation generally involves three phases. The phases and their characteristics are as follows:

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

2. 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 fee's.
3. 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 they are 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 in Progress - The economic construction activity status of buildings and other structures, infrastructure (roads, energy distribution systems, pipelines, etc.), additions, alterations, reconstruction, installation, and maintenance and repairs, which are substantially incomplete.

Donated Assets - Donations are defined as voluntary contributions of resources to a governmental entity by a non-governmental entity. Donations should be reported at fair 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.

Donations will be recorded and reported at fair value on the date of acquisition based on a reasonable market study. New Mexico Tech will recognize the donation and related revenue when the transaction is complete and the assets are received, providing all eligibility requirements have been met.

Equipment

Equipment is defined as fixed or movable tangible assets costing \$5K or more whose benefit extends beyond one year from the date of acquisition and rendered into service. Equipment life will comply with audit regulations mandated by the New Mexico State Auditors Rules.

Equipment Improvements/Enhancements

Improvements or enhancements are internal or external additions to capital assets that extend their life, increase productivity, quality or increase the value greater than \$1K. Enhancements greater than \$1K will be capitalized and their cost added to the capital cost of the item being enhanced; otherwise they will be expensed. Enhancements that have a greater value than \$1K require the use of a purchase order. The purchase order should include the property tag number of the improved or enhanced item coded as a capital asset in the same manner as original capital asset purchases.

Fabricated Equipment

Equipment fabricated by the university will be capitalized and included in the moveable equipment inventory meeting the following criteria:

Upon completion, benefit extends beyond one year from the date rendered into service;

The end item has a final assembled cost of at least equal to the asset capitalization threshold. Allowable costs that can be included in the threshold are the cost of materials, supplies, fixtures used, freight charges, third party installation costs, tax on installation and travel costs by the Vendor as applicable.

Note: Internal department labor, department travel or other operating expenses associated with the fabrication such as salaries of Principal Investigators, graduate student researchers, or other comparable personnel who participate in the fabrication process **are not** included in the acquisition cost of the item.

Heavy Equipment – are assets which exceed the \$5K capitalization threshold that include front-end loaders, large tractors, graders, dozers, scrapers, dump trucks, bucket trucks, backhoes and water trucks.

Jointly Funded - Equipment paid for jointly by the university and other governmental entities should be capitalized by the entity responsible for future maintenance.

Leased Equipment - Leased equipment should be capitalized if the lease agreement meets any one of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains a FMV 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 value of the leased property. Leases that do not meet any of the above requirements should be recorded as an operating lease.

Exhaustible collections or items - Assets whose useful lives are diminished by display, 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 and is 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. New Mexico Tech's infrastructure subsystems are:

1. Road Systems
2. Communications Systems
3. Utilities - which includes domestic water, sanitary, electrical, chilled water, steam, natural gas, geothermal, central utility and utility tunnel systems
4. Other - which includes exterior lighting and landscaping systems

Note: Prospective reporting of general infrastructure assets began in fiscal year 2002. Also required is the retroactive reporting of infrastructure assets purchased, constructed, or donated in fiscal years ending after June 30, 1980 or that received major renovations, restorations, or improvements during that period.

Infrastructure Improvements - Capital expenditures that materially extend the useful life, increase the value or both are considered infrastructure. Infrastructure improvements should be capitalized as betterment and recorded as an addition of value to the infrastructure. The improvement or addition of value must meet the capitalization threshold or increases the life or value of the asset.

Infrastructure Modified Approach - The modified approach is an alternative to reporting depreciation for infrastructure assets. It 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. New Mexico Tech will depreciate capital assets rather than follow the modified approach.

Jointly Funded Infrastructure - Infrastructure paid for jointly by New Mexico Tech and other governmental entities should be capitalized by the entity responsible for future maintenance.

Maintenance Costs - Expenditure that allow asset to operate for its originally documented useful life 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 be capitalized.

Land – Real Estate used to support structures for academic and research activities. Land is characterized as having an unlimited life (indefinite), therefore it is not depreciated. Donated land should be treated like other donated assets.

Land improvements – Development and improvement of real estate (other than buildings). Prepare land for its intended use. The costs associated with improvements are added to the cost of the land and are not depreciated.

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

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 aggregated net basis.

Other Improvements - Depreciable improvements made to a facility or to land that should be capitalized as betterment's if the improvement is at the capitalization threshold or the expenditure increases the life or value of the asset.

Sale of Capital Assets - When an asset is sold to a non-state entity or other state agency, a gain or loss must be recognized if the one of following scenarios occurs:

- Cash is exchanged and the amount received 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 received 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

In all cases, the reversal of capitalized value and related accumulated depreciation will be recorded.

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, agencies 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 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, agencies 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. See "Exhaustible" and "Inexhaustible" definitions on page 4 herein.

Standard capitalization thresholds for capitalizing assets have been established for each major class of assets as follows:

Class of Asset Useful Life & Threshold

	Life/Yrs	Threshold
• Land	N/A	N/A
• Land Improvements	30	\$100,000
• Building	30	\$100,000
• Infrastructure	30	\$100,000
• Computers	3	\$ 5,000
• Equipment	5	\$ 5,000
• Vehicles	7	\$ 5,000
• Heavy Equipment	12	\$ 5,000
• Library Books	10	All
• Works of Art	N/A	N/A
• Software	5	\$5,000-\$49,999
• Software	10	\$50,000 +

Example of Expenditures to be Capitalized:

Buildings:

- 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 placing or rendering 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
- Costs of temporary buildings used during construction
- 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:

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 Weir Hall. 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 telephone 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:

- 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

Equipment:

Note: Equipment acquisition, tracking and disposition must comply with the New Mexico Tech Property Control Policy approved by the New Mexico Tech Board of Regents.

- Original contract or invoice price
- Freight charges
- Import duties
- Handling and storage charges
- In-transit insurance charges

- Sales, use, and other taxes imposed on the acquisition
- Installation charges
- Charges for testing and preparation for use
- Costs of reconditioning used items when purchased

Infrastructure:

- Communications Systems - fiber optic cabling, telephone distribution systems (between buildings), radio or television transmitting tower
- Pavement Systems - highways, roads, streets, curbs, gutters, sidewalks, fire hydrants, guard rails
- Utilities - gas distribution systems, electric, water, gas (main lines and distribution lines, tunnels), chilled water, geothermal, septic systems
- Other - irrigation systems, street signage, light system (traffic, outdoor, street, etc.)

Land :

- 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:

- Fencing and gates
- Landscaping
- Parking lots/driveways/parking barriers
- 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:

- Invoice price
- Freight charges
- Handling
- In-transit insurance charges
- Binding
- Reproduction and like costs required placing assets in service, with the exception of library salaries

Software - Application Development Phase:

- 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

Works of Art and Historical Treasures:

- Collection of rare books, manuscripts
- Maps, documents and recordings
- Works of art such as paintings, sculptures, and designs
- Artifacts, memorabilia, exhibits
- Unique or significant structures

References:

Cost Accounting Standards

Governmental Accounting Standards Board (GASB) Statement No. 34 and No. 35

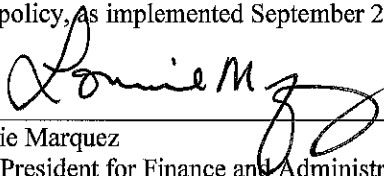
National Association of College and University Business Officer, AICPA Statement of Position 98-1

State of New Mexico General Services Division (GSD)

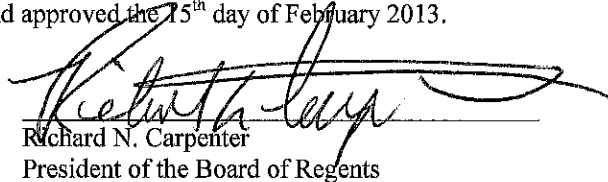
The Audit Act, Section 12-6-12 NMSA 1978

NMAC 2.2.2 – State of New Mexico State Auditors Requirements for Contracting and Conducting Audits of Agencies

This policy, as implemented September 27, 2005, is revised and approved the 15th day of February 2013.



Lonnie Marquez
Vice President for Finance and Administration



Richard N. Carpenter
President of the Board of Regents