

207-05 CAPITAL ASSETS-PROCEDURE

1. PURPOSE

The purpose of the Capital Assets Procedure is to ensure the College's fixed assets are acquired, accounted for, inventoried, safeguarded, and disposed of properly.

2. PROCEDURAL GUIDELINES

1. Capitalization

- a. Fixed assets include land, buildings, improvements other than buildings, and equipment that has a purchased price or market value of \$5,000 or more and has a life-cycle expectancy of two years or more. This total dollar amount includes all additional fees associated with the purchase, such as shipping/handling and setup charges.
- b. Some building improvements are capitalized where normal repair and maintenance is not. Building improvements must add significant value or extend the existing useful life of the asset or adapt a fixed asset to a new or different use. Examples of improvements that can be capitalized include:
 - c. Additional to buildings (expansion, extensions, or enlargements)
 - d. Substantial remodel or rehabilitation that restores a building to a "like-new" condition
 - e. Substantial remodel or rehabilitation that adapts the building to a new or different use.
- f. Fixed asset additions meeting these definitions must be approved through the budget development process. The Business Office will assign a specific accounting code for the fixed asset addition charges in order to properly track the costs for financial reporting purposes. The fixed asset additions will be recorded and depreciated over its estimated useful life.

2. Classification

- a. Land – the land account should include all land acquired through purchase, donation, bequest or other means.
- b. Buildings – the buildings account includes buildings and structures. This also includes permanently-attached fixtures or machinery that cannot be removed without damaging the building or the item removed, such as heating, air conditioning, or security systems.
- c. Improvements other than buildings – The improvements account includes all land improvements, and other improvements except buildings including pavement, landscaping, retaining walls, sewers, flagpoles and fences.
- d. Equipment – The equipment account includes equipment and furniture that has more than a nominal value such as copiers, servers, computer software and vehicles.
- e. Construction in progress – Construction in progress includes all costs of uncompleted building and improvement projects. Construction in progress

expenditures are accounted for in the Unexpended Plant Fund until the end of the project or year-end when the capitalized amount is recorded as an asset in the Investment in Plant Fund.

3. Valuation

- a. Proper valuation ensures that plant assets are accurately recorded and reported in the financial statements. The basis of valuation depends if the asset was acquired by purchase, donation, trade or lease or constructed.
 - a. Purchased plant assets are valued at cost. Actual cost includes the invoice price, plus all ancillary charges such as sales tax, freight, delivery, and any other expenditure to put the asset in use.
 - b. Land acquisition costs include legal, title, surveying, appraisal and site preparation not related to a building.
 - c. Building acquisition costs include professional fees for architects, attorneys, appraisers and all additional costs to put the building into its intended use.
 - d. If building and land are purchased together, the total purchase price must be allocated proportionally among buildings and land and is based upon fair market value.
- b. Donation – Plant assets acquired through donation or bequest should be recorded at the fair market value on date of acquisition. All donations of property must be coordinated through the Foundation and Purchasing departments, and accepted by the District Governing Board.
- c. Trade – Plant assets may be acquired by trading in one asset for another. The basis of valuation of the new asset should include consideration of the book value of the asset traded in.
- d. Lease – Capital lease should be recorded at the lesser of the fair market value of the leased asset or the present value of the minimum lease payments.
- e. Constructed Assets – Construction costs may include architects, engineers, materials, labor, temporary buildings, permits, licenses, fees, insurance and easements. All costs incurred during the construction period are accumulated in the construction in progress account in the Unexpended Plant Fund and then recorded in the investment in plant fund at the completion of the project.

4. Depreciation

Depreciation calculations are based on the Arizona Community College Business Officers Accounting Standards Committee recommendations and are listed below.

	Depreciation Method	Estimated Useful Life
Buildings	straight line	40 years
Improvements	straight line	15 years
Equipment	straight line	5 years
Vehicles	straight line	5 years
Intangibles	straight line	5 years

5. Repair and Maintenance

Improvements that keep property in ordinarily efficient operating condition or to restore the property to its previous condition are considered building repairs and maintenance expense. The College maintains a planned maintenance schedule to plan and account for routine repair and maintenance. Repairs and maintenance expenses typically do not extend the original useful life of the asset or substantially increase the value of the asset.

The following items are typically considered to be repairs and maintenance expense unless these items are part of a substantial remodel or rehabilitation:

- a. Repainting
- b. Replacement of carpet or tiles
- c. Plumbing or electrical repairs
- d. Repairing leads

6. Physical Controls

- a. Tagging – all equipment and furniture items that are \$5,000 or more and capitalized are assigned a plant asset inventory number and tagged accordingly. Additional items are also tagged for tracking purposes such as computers and items purchased with grant funds. The shipping and receiving department is responsible for promptly assigning the inventory number and affixing the identification tags to the equipment and furniture.
- b. Physical Inventory – a physical inventory of plant assets provides control and accountability of plant assets. A complete physical inventory of plant assets is taken at least every two years. The physical inventory process includes the following:
 - i. Restrict movement of plant assets during inventory
 - ii. New acquisitions should be held in the receiving department until inventory is complete.
 - iii. A physical inventory of plant assets is taken and compared to a listing of plant assets.
 - iv. Any discrepancies must be noted including new items that are not on the inventory sheets or items that are not present that are still listed.

7. Physical Security

The College is responsible for insuring, safeguarding and maintaining control of plant assets. Please see Procedures 121-03 (Security and Access to College Facilities) and 140-01 (Acceptable Use of Technology) for additional information.

8. Surplus Property

- a. The College attempts to reuse or repurpose surplus property. The Purchasing Department is responsible for the acquisition and disposal of all surplus property. Requests for the acquisition or disposal of surplus property must be submitted in writing to the Purchasing Department.
- b. Surplus for sale or donation:
 - i. Equipment for sale shall be transferred to Northern Arizona University (NAU) surplus property department. The College has entered into a cooperative agreement with NAU to sell college surplus, primarily by public spot sale, and to reimburse the College 70% of the proceeds.
 - ii. Donations of equipment to eligible non-profit institutions are handled on a case-by-case basis. A written request on institution letterhead, submitted to the Director of Purchasing and Auxiliary Services, is required. Approval of donations shall be made at the discretion of the Director of Purchasing and Auxiliary Services.
- c. Surplus for disposal: Equipment that can no longer be used for its intended purpose and does not contain hazardous materials, shall be disposed of properly by the auxiliary services department.
- d. Surplus for universal waste: Equipment that can no longer be used for its intended purpose and contains hazardous materials no longer accepted by the landfill shall be stored in a secure location until such time as a sufficient quantity is acquired. The College contracts with a universal waste vendor to legally dispose of acquired items.

3. BACKGROUND

References: State of Arizona Financial Accounting and Reporting Manual, Arizona Community College Business Officers Accounting Standards Committee, Government Finance Officers Association, Procedure 121-03 Security and Access to College Facilities, Procedure 140-01 Acceptable Use of Technology

2. Revision history: 12/06/2017 (new)
3. Legal review: none
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