

**THE CITY OF NEW YORK**

**OFFICE OF THE COMPTROLLER**

**INTERNAL CONTROL AND ACCOUNTABILITY DIRECTIVES**

**DIRECTIVE 30 - CAPITAL ASSETS**

**INTRODUCTION AND SUMMARY**

This Directive provides accounting policies for reporting Capital Assets in the financial statements of The City of New York (the City). Generally, a Capital Asset is defined as a tangible property or other asset that meets the minimum cost, minimum useful life and other criteria mentioned in this Directive. Capital Assets are mainly financed from the proceeds of the sale of bonds but also may be obtained by means of federal, state and private grants, or purchased by the General Fund. The City Comptroller's Internal Control and Accountability Directive 10, *Charges to the Capital Projects Fund* (Directive 10), sets forth the criteria for charging the cost of Capital Assets to the Capital Projects Fund in addition to providing considerable detailed guidance on various types of Capital Assets and capital eligible expenditures. This Directive incorporates Directive 10 eligibility criteria for recording Capital Assets and provides further guidance on Capital Asset valuation, recording, disposition, and inventory control.

The guidelines contained herein are consistent with those of the Governmental Accounting Standards Board (GASB), the organization responsible for promulgating generally accepted accounting principles (GAAP) for US non-federal governmental entities. GASB defines the term Capital Assets and provides criteria and guidance for determining when an asset should be classified as a Capital Asset. GASB further requires disclosure of all the governmental entity's policies for capitalization. Under GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, infrastructure assets are now included in the Capital Asset category and are treated the same way as other Capital Assets for financial reporting purposes.

The City's integrated accounting system is the Financial Management System (FMS Accounting). All Capital Assets of the City must be accounted for and recorded in this system.

Inventory control and the maintenance and reconciliation of accurate inventory records is an important aspect of safeguarding all assets of value held by the City including those assets classified as Capital Assets. This Directive provides basic guidance with respect to the necessity for establishing and maintaining sound inventory control procedures for Capital Assets at the

agency level. Direction is also provided for the handling of Capital Asset dispositions, impairments, write-offs and other asset related activities within the City.

## **1.0 GENERAL INFORMATION**

### **1.1 Comptroller Authority**

This Directive is issued pursuant to the Comptroller's authority as established in Charter 5, Section 93 of the City Charter. The classification, control and disposition of Capital Assets held by the City are subject to periodic audit by the City's Office of the Comptroller.

### **1.2 Organization**

- 1.0 General Information
- 2.0 Capitalization Criteria
- 3.0 Valuation
- 4.0 Recording of Capital Assets in FMS Accounting
- 5.0 Dispositions
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- 11.0 Inventory Controls Over Capital Assets

### **1.3 Effective Date**

This Directive is effective immediately. It supersedes the previous version issued June 3, 2005.

### **1.4 Assistance**

Questions or comments concerning this Directive should be addressed to: Directives Unit, Bureau of Accountancy, One Centre Street, Room 827, New York, NY 10007, (212) 669-8216, E-mail [directives@comptroller.nyc.gov](mailto:directives@comptroller.nyc.gov).

## **1.5 Internet Availability**

An inventory of existing Office of the Comptroller's Internal Control and Accountability Directives, most with download and print capability, are available on the Comptroller's website at [www.comptroller.nyc.gov](http://www.comptroller.nyc.gov). Directives without download capability may be obtained by contacting the Directives Unit.

## **2.0 CAPITALIZATION CRITERIA**

Capital Assets, as defined by GASB "are major assets that benefit more than a single fiscal period." Typical examples given are "land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and various intangible assets." Infrastructure assets are long-lived Capital Assets that normally are stationary in nature and can be used for significantly long periods of time. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems, piers and bulkheads.

By the GASB definition, any asset that benefits more than one fiscal year has the potential for classification as a Capital Asset. Governmental entities have diverse capitalization requirements, which establish capitalization thresholds that must be met in order for a cost to be capitalized and reported on the government-wide Statement of Net Assets.

Consistent with the GASB guidance, the City has established specific cost and useful life thresholds whereby a qualifying asset, whether purchased, constructed, received as a donation or financed through the General Fund, must be recorded as a Capital Asset. As the majority of Capital Assets are obtained by means of capital funding (bond proceeds, and federal, state and private grants), The City's capitalization thresholds are officially set forth in Comptroller's *Internal Control and Accountability Directive 10*, which outlines the City's capital spending policy for Capital Assets.

Currently, the thresholds requiring asset capitalization by the City are a minimum asset cost of \$35,000 and an expected useful life, for City purposes, of at least five years.

## **3.0 VALUATION**

Capital Assets may be self built, purchased, constructed by outside vendors, or donated by organizations external to the City's reporting entity. Generally, such assets should be reported at their historical cost and depreciated over their useful life. The historical cost calculation may include certain capital eligible expenditures that are specifically identified with, or are necessary and incidental to the City's taking possession of the Capital Asset. Historical cost should also include the cost of any additions or improvements made at the time of acquisition but exclude the cost of repairs. A Capital Asset eligible addition or betterment, unlike

a repair, either enhances the Capital Asset's functionality or extends the Capital Asset's expected life. A listing of eligible expenditures that may be charged to the cost of a Capital Asset is provided in §3.4.1 of Directive No.10. Donated assets should be recorded at their fair market value at the date of donation.

In the absence of valid historical cost information (i.e., capital assets never recorded in inventory), City agencies must assign a "best estimate" value for the historical cost of the Capital Asset. To properly value a capital asset, there are several methodologies that may be used. One method is to deflate the current value of a same or similar asset using an appropriate price index for adjustment back to its value at the time of original build or manufacture. Another method is to use historical source references, such as old vendor catalogues, to establish the average cost of obtaining the same or similar asset at the time of original build or manufacture. In either case the estimated cost of the Capital Asset would need to be reduced by an estimated amount of accumulated depreciation.

#### **4.0 RECORDING CAPITAL ASSETS IN FMS ACCOUNTING**

FMS Accounting must reflect all of the City's additions and dispositions of Capital Assets in accordance with *The FMS Procedures Manual for Capital Assets*. A Capital Asset is defined as tangible property or other asset that meets the minimum cost, minimum useful life, and other criteria referenced in Section 2.0, regardless of the source of funding for the asset. All Capital Assets recorded within FMS Accounting must be classified within one of the following detail funds:

- Fund 850 - General Capital Assets
- Fund 852 - Water and Sewer Capital Assets
- Fund 855 – Capital Leases
- Fund 861 – Memo Capital Asset Fund
- Fund 864 – NonCity Owned Capital Asset
- Fund 867 – Infrastructure Capital Assets

##### **4.1 Recording of Capital Assets**

Generally, a Capital Asset must be recorded when it is substantially complete and placed in service. If the Capital Asset being purchased consists of a new system comprised of different components, the Capital Asset must be recorded in the Capital Asset inventory at the time the Capital Asset is placed in service, irrespective of the timing of payments for the Capital Asset. Capital Assets involving new construction or betterment to existing Capital Assets must be recorded when the improved Capital Asset is placed in service.

##### **4.2 Capital Expenditures Not Resulting in a Capital Asset**

In certain instances capital expenditures do not result in an acquisition, construction or reconstruction of a Capital Asset And should not be recorded in FMS Accounting. This can occur in the following situations:

- Non-City owned entities (i.e. cultural institutions) receiving city funding for construction of, betterments and or improvements to their non-City owned buildings.
- Funding Agreements between the New York City Economic Development Corporation (EDC) and the City for acquisition of, betterment and or improvements to non-City owned properties.
- City funding to maintain and improve properties acquired through In-Rem procedures, which will be conveyed to private landlords at a later date.

In these situations, the assets constructed, reconstructed or acquired have to be used for public purposes of the City for a term equal to or greater than the bonded debt.

### **4.3 Depreciation**

Depreciation is a method to distribute the cost of a Capital Asset over its useful life in a systematic and rational manner. Depreciation for the year is the portion of the total charge under such a method that is allocated to that year. Capital Assets are generally depreciated over their estimated useful lives. Non-exhaustible Capital Assets, such as land and land improvements, are not required to be depreciated. Depreciation expense must be reported as a reduction of net assets in the government-wide Statement of Activities. Accumulated depreciation reduces the carrying amount of Capital Assets as reported in the government-wide Statement of Net Assets.

## **5.0 DISPOSITIONS**

When a Capital Asset has no further utility, the agency must dispose of the Capital Asset. A Capital Asset should be deemed no longer useful for one or more of the following reasons:

- Impairment due to Condemnation, Obsolescence or Destruction (§6.0)
- Sale
- Donation
- Loss/Unaccounted for
- Vandalism/Theft
- Worn

FMS Accounting must be updated for dispositions of Capital Assets in accordance with the *FMS Procedures Manual for Capital Assets*. The Department of Citywide Administrative Service's (DCAS) *Agency User Guidelines for Relinquishment and Disposition of Surplus Property* should be reviewed before recording any dispositions.

### **5.1 Disposition of Assets**

#### **5.1.1 Surplus Items**

Agencies must submit the proper relinquishment form(s) to DCAS' Office of Surplus Activities (OSA). DCAS categorizes as surplus any items purchased with City funds that have no further utility or grant funds, unless different disposition rules are imposed by the grantor. The relinquishment of surplus items to OSA should take place

immediately after the agency has determined that the Capital Assets have no further use.

#### 5.1.2 Items to be Destroyed

If the agency determines that an item is obsolete or beyond repair, a separate relinquishment form must be filed with OSA. OSA will then issue a destroy order enabling the agency to dispose of the item from the site. OSA will issue a destroy order if the item has no sale, transfer or scrap value. In addition, the agency must also submit a “request” letter signed by the agency Salvage Officer following the relinquishment submission indicating the relinquishment number.

### 5.2 Processing the Fixed Asset Disposition

After OSA determines whether the item will be surplus or destroyed, the agency must process the disposition in FMS Accounting. The disposition must be recorded in FMS Accounting in the same accounting period (fiscal year) in which its disposition has occurred.

## 6.0 IMPAIRMENT

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for impairment of Capital Assets. The objective of these requirements is that the carrying amount of assets that have been impaired not be overstated in the financial statements. Accordingly, the carrying amounts of impaired Capital Assets are subject to write-down when certain conditions are met. A Capital Asset is considered impaired when its service utility or function has declined significantly and unexpectedly. The service utility of a Capital Asset refers to the usable capacity that was available to provide a continuing service at the time of acquisition. The usable capacity of a Capital Asset may decline due to various reasons. Agencies should identify all Capital Assets that appear to be impaired.

The GASB requires general Capital Assets to be reported in the government activities column of the government-wide Statements of Net Assets. Impairment write-downs must be reported as adjustments to the general Capital Assets affected.

### 6.1 Identification of Impairment

City agencies must test a Capital Asset for impairment whenever unexpected events or changes in circumstances indicate that the service utility of the Capital Asset has declined significantly. The carrying value, or net book value, which represents historical cost less accumulated depreciation of a Capital Asset, may have to be written-down if impairment has been determined. The normal wear and tear of Capital Assets over time is not considered impairments as discussed in this Directive. Agencies must contact the Division Chief of Capital and Debt Services via E-mail [capital@comptroller.nyc.gov](mailto:capital@comptroller.nyc.gov), Telephone (212) 669- 7610, in all instances where Capital Asset impairment is indicated or identified.

Common indicators of impairment are:

- Physical damage
- Technological developments or evidence of obsolescence
- Change in legal or environmental factors
- Change in the manner or expected duration of usage
- Construction stoppage

## **6.2 Impairment Test**

If an indicator of impairment is present, agencies must test the Capital Asset in question for impairment by determining whether both of the two following factors are present.

- Is the magnitude of the decline in service utility significant? Agencies must determine if the expenses associated with the continued operation and maintenance, or costs associated with restoration, of the Capital Asset are significant in relation to the current service utility. If there is no physical damage, the agencies action to address the situation is an indication that the expenses are too high in relation to the benefit.
- Is the decline in service utility unexpected? Agencies must determine if the restoration cost or other impairment circumstance is not part of the normal operating cycle

## **6.3 Measurement of the Impairment**

Generally, impairment should be considered permanent. If there is evidence that demonstrates the impairment will be temporary, however, the net book value of the Capital Asset generally would not be reduced.

### **6.3.1 Impaired Assets Which Continue in Use**

Where an impaired Capital Asset continues in use, only a portion of the net book value should be reduced. There are several methods available to measure the amount of impairment and determining the amount of the reduction.

- Restoration Approach - Capital Assets that are impaired resulting from physical damage should use the restoration approach to measure the impairment. Under this approach, the amount of the impairment is derived from the estimated cost to restore the utility of the Capital Asset. The restoration cost should be converted to historical cost by use of either an appropriate cost index, such as the building cost index, which can be obtained from the *Engineering News Record*, the consumer price index or by applying a ratio of restoration cost over estimated replacement cost to the carrying value of the Capital Asset.
- Service Units Approach - Capital Assets that are impaired due to changes in legal or environmental factors, technological development or obsolescence should be measured using the service units approach. Under this methodology, the amount of the impairment should be determined by evaluating the total or maximum estimated service units provided by the Capital Asset before and after the event or change in circumstances.
- Deflated Depreciation Replacement Cost Approach - Capital Assets that are impaired from a change in the manner or duration of use should be measured using a deflated depreciation replacement cost or a service units approach. The approach replicates the historical cost of the service produced. A current cost for a Capital Asset to replace the current level of service is estimated. This estimated current cost is then depreciated to reflect that the Capital Asset is not new and deflated to convert it to historical cost.

### 6.3.2 Impaired Assets Which Will no Longer be In Use

Impaired Capital Assets which will no longer be used by the City, including Capital Assets impaired from construction stoppages, should be reported at the lower of carrying value or fair value. Agencies should maintain all supporting documentation regarding the amount of the write-off of the impaired Capital Asset. The calculations supporting the write-off should be forwarded to the Office of the Comptroller, Bureau of Accountancy (BOA), Capital Asset Unit, for review and approval.

Following the BOA's approval regarding the amount of the write-off of the impaired Capital Asset, Agencies must prepare an FI document to adjust the cost or an FD document to retire the asset.

### 6.3.3 Example of an Impairments Loss

Extensive mold contamination of a government office building resulting in closure due to the health concerns of the employees.

The mold contamination is the evidence of physical damage providing the indication of impairment. Management considers this event to be unusual in nature but not infrequent in occurrence and not within their control. The ongoing costs of the school, especially depreciation and operating costs, would be viewed as significant in relation to the zero utility it was providing. This circumstance is not part of the normal life cycle of a school.

The mold remediation involves removal and rebuilding of the interior walls and site drainage improvements costing \$4,000,000. In accordance with the capitalization policy of the district, 40% of the remediation cost is allocable to demolition and mold removal, and 60% is allocable to rebuilding the walls of the school. The estimated replacement cost of the school is \$6.2 million.

**Historical Data of the Land and Building**

	<b><u>Historical Cost</u></b>	<b><u>Accumulated Depreciation</u></b>	<b><u>Carrying Amount</u></b>
Land	\$ 100,000		
Building (Original Construction)	1,200,000	\$ 600,000	\$ 600,000
Renovation	135,000	45,000	90,000
Building Addition and AC	<u>1,100,000</u>	<u>275,000</u>	<u>825,000</u>
Total Cost of Buildings	<u>\$2,435,000</u>	<u>\$ 920,000</u>	<u>\$1,515,000</u>

**Computation of the Loss**

The restoration measurement approach should be used because the impairment was a result of physical damage.

Total Mold Remediation Cost	\$4,000,000
Percentage Rebuilding Cost	<u>60%</u>
Restoration Cost (\$4,000,000 X 60%)	<u>\$2,400,000</u>
Restoration Cost (Current Dollars)	\$2,400,000
Replacement Cost (Current Dollars)	<u>6,200,000</u>

Restoration Cost Ratio (\$2,400,000/ \$6,200,000)	38.7097%
Carrying Amount	<u>1,515,000</u>
Impairment Loss (\$1,515,000 X 38.7097%)	<u>\$ 586,452</u>

Since this event is not infrequent in occurrence it does not meet the criteria of an extraordinary item. The impairment loss and mold remediation expenses should therefore be allocated to the applicable programs and be reported as program expenses in the statement of activities. The following disclosures would be presented in the notes to the financial statements:

Program expenses include an impairment loss of \$586,452 due to mold contamination at an elementary school and also include \$1,600,000 in mold remediation costs as follows:

	<b><u>Impairment Loss</u></b>	<b><u>Mold Remediation</u></b>
Regular Instruction (55 %)	\$322,550	\$ 880,000
Special Education Instruction (15%)	87,967	240,000
Pupil Support Services (10%)	58,645	160,000
Instructional Staff Services (10%)	58,645	160,000
School Administration Services (10%)	<u>58,645</u>	<u>160,000</u>
Total	<u>\$586,452</u>	<u>\$1,600,000</u>

## 7.0 CAPITAL LEASES

Generally accepted accounting principles require that Capital Assets acquired by lease, in lieu of purchase, must be capitalized where the lease agreement satisfies the criteria established by the Financial Accounting Standards Board Statement No.13, *Accounting for Capital Leases* (FAS 13).

FAS 13 states that non-cancelable leases that meet any one of the following criteria must be capitalized:

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

- The lease term is equal to 75% 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% of the fair value of the leased property.

Once a lease is classified as a Capital Lease, it must be recorded in the government-wide Statement of Net Assets. FAS 13 requires that the Capital Lease be recorded as an asset and have a corresponding obligation at an amount equal to the present value, at the beginning of the lease term, of the minimum lease payments during the lease term. The portion of the payments representing executory costs, such as insurance, maintenance and taxes to be paid by the City together with any profit, must be excluded. The Office of the Comptroller, BOA, Financial Reporting Unit, performs the calculations necessary to be in compliance with FAS 13 from information received from the agencies by means of the *Fiscal Year End Closing Instructions*.

The *Fiscal Year End Closing Instructions*, issued by the City Comptroller's Office, BOA, requires agencies to review a "Lease Expense Report" to determine if the information contained in it is correct and complete. The review must take into account all rental payments made by each agency. When reviewing the report particular attention must be paid to the following: missing leases, terminations, expirations, amendments, minimum annual rents and balances. The reviewer's signature, title and phone number must be included on each page. The "Lease Expense Report" should be picked up and returned to the City Comptroller's:

Bureau of Accountancy  
Financial Reporting Unit  
One Centre Street, Room 827  
New York, NY 10007

Any questions and concerns should be addressed to the Financial Reporting Unit Chief, at (212) 669-8013.

The property rights acquired under a lease agreement containing any of the above criteria must be reported as a Capital Asset when the present value of the minimum lease payments is \$35,000 or more and the asset has an expected useful life, for City purposes, of at least five years.

## **8.0 POLLUTION REMEDIATION ASSETS**

Pollution Remediation Projects vary and can involve a) the cleaning up of spills of hazardous wastes or hazardous substances and/or b) the removal of contamination such as

asbestos or lead paint. GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), provides standards for accounting and reporting for pollution remediation obligations. GASB 49 states that Pollution Remediation Obligations are incurred to address the detrimental effects of existing pollution by participating in Pollution Remediation Activities (Section 8.3). Generally Pollution Remediation Obligations should be expensed when recognized.

Some projects for which the primary objective is other than pollution remediation, for example, land improvements, remodeling, and the periodic dredging of a waterway for shipping, may include Pollution Remediation Activities. Usually these projects result in the construction or purchase of new assets or betterments of existing assets. GASB 49 states that Pollution Remediation Outlays (Section 8.2) in these projects may result in capital assets if they are acquired for any of the reasons listed in Section 8.3 of this directive.

### **8.1 Pollution Remediation Activities**

Pollution Remediation Projects address the current or potential detrimental effects of existing pollution by participating in Pollution Remediation Activities. GASB 49 states that Pollution Remediation Activities include the following:

- 8.1.1 Pre-cleanup Activities, such as the performance of a site assessment, site investigation, and corrective measures feasibility study, and design of a remediation plan;
- 8.1.2 Cleanup activities, such as neutralization, containment, or removal and disposal of pollutants, and site restoration;
- 8.1.3 External government oversight and enforcement- related activities, such as work performed by an environmental regulatory authority dealing with the site and chargeable to the City;
- 8.1.4 Operation and maintenance of the remedy, including required monitoring of the remediation effort (post remediation monitoring)

### **8.2 Outlays**

GASB 49 defines Pollution Remediation Outlays as all direct outlays attributable to Pollution Remediation Activities (for example, payroll and benefits, equipment and facilities, materials, and legal and other professional services) and may include estimated indirect outlays (including general overhead).

### **8.3 Capitalization of Pollution Remediation Outlays**

GASB 49 requires that Pollution Remediation Outlays should be capitalized when goods and services are acquired for any of the following circumstances:

- To prepare a property in anticipation of a sale. (Not to exceed the estimated fair value of the property upon completion of the remediation). The City does not permit the capitalization of costs incurred for assets not expected to be held by the City for at least five years (see Section 2), except in the case of certain statutory authorized programs such as housing or urban renewals. Therefore, this circumstance most likely will not apply to City agencies.
- To prepare property for use when the property was acquired with known or suspected pollution. Capitalize only those pollution remediation outlays expected to be necessary to place the asset into its intended location and condition for use.
- To perform pollution remediation that restores a pollution-caused decline in service utility that was recognized as asset impairment. Capitalize only those pollution remediation outlays expected to be necessary to place the asset into its intended location and condition for use.
- To acquire property plant and equipment that has future alternative uses. Pollution remediation outlays should be capitalized to the extent of the estimated service utility that will exist after pollution remediation activities uses have ceased.

#### **8.4 Implementation Manual and Training**

The Office of the Comptroller in conjunction with the New York City Office of Management and Budget has issued a *Policies and Procedures Manual for Implementation of Governmental Accounting Standards Board Statement No. 49- Accounting and Financial Reporting for Pollution Remediation Obligations*. All agencies are recommended to obtain a copy of this manual. Chapter 3, “Capitalization Criteria” lists the circumstances when it is appropriate to capitalize remediation outlays. Chapter 3 also contains examples which illustrate when it is appropriate to capitalize pollution remediation outlays and the amount to capitalize.

#### **8.5 Additional Capitalization Requirements**

For Pollution Remediation Outlays that meet the GASB 49 capitalization criteria in this Section, refer to Section 2.0 of this Directive to determine if the Pollution Remediation Outlays also meet the specific capitalization requirements for the City (capitalization thresholds). These thresholds must be met in order for Pollution Remediation Outlays to be classified as capital assets and reported on the government-wide Statement of Net Assets.

#### **8.6 Recording of Pollution Remediation**

FMS Accounting must reflect all of the City’s expenditures in relation to Pollution Remediation. To record expenditures that meet the criteria to be classified as Pollution Remediation expenses, the following object codes should be used within the Capital Projects Fund:

#### Land Acquisition

- Detail Object 2027.....Pollution Remediation Obligations-Reportable
- Detail Object 2028.....Pollution Remediation Obligations-Not Reportable

#### Construction Buildings

- Detail Object 2111.....Pollution Remediation Obligations-Reportable
- Detail Object 2112.....Pollution Remediation Obligations-Not Reportable

#### Building Acquisition

- Detail Object 2121.....Pollution Remediation Obligations-Reportable
- Detail Object 2122.....Pollution Remediation Obligations-Not Reportable

#### Capital Purchased Equipment

- Detail Object 2201.....Pollution Remediation Obligations-Reportable
- Detail Object 2202.....Pollution Remediation Obligations-Not Reportable

#### OTB Site Acquisition

- Detail Object 2311.....Pollution Remediation Obligations-Reportable
- Detail Object 2312.....Pollution Remediation Obligations-Not Reportable

#### IOTB Construction

- Detail Object 2321.....Pollution Remediation Obligations-Reportable
- Detail Object 2322.....Pollution Remediation Obligations-Not Reportable

#### Leasehold Imp Construction

- Detail Object 2411.....Pollution Remediation Obligations-Reportable
- Detail Object 2412.....Pollution Remediation Obligations-Not Reportable

## **9.0 INTANGIBLE ASSETS**

The GASB defines intangible assets in GASB 51, *Accounting and Financial Reporting for Intangible Assets*, as assets that lacks physical substance, is nonfinancial in nature and whose initial useful life extends beyond a single reporting period. Intangible Assets should be classified as capital assets, and reported on the government-wide Statement of Net Assets, if they meet the capitalization requirements for the City (capitalization thresholds) in Section 2.0 of this Directive. Internally generated intangible assets must also meet the additional requirements in Sections 9.1 - 9.2 of this Directive.

### **9.1 Internally Generated Intangible Assets**

GASB 51 states that intangible assets are internally generated if they are created or produced by the City or an entity contracted by the City, or if they are acquired from a third party

but require more than minimal incremental effort on the part of the City to begin to achieve their expected level of service capacity.

### 9.1.1 Capitalization Criteria

As required by GASB 51, outlays incurred and related to the development of internally generated intangible assets may be capitalized upon the occurrence of the following:

- (a) Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the software upon completion of the project;
- (b) Determination of the technical or technological feasibility for completing the project so that the software will provide its expected service capacity, and;
- (c) Demonstration of the current intention, ability, and presence of effort to complete or, in the case of multiyear project, continue development of the software

Computer software is a common type of intangible asset that is often internally generated. The following section provides guidance on internally generated computer software.

## 9.2 Internally Generated Computer Software

### 9.2.1 Capitalization Criteria

For Internally Generated Computer Software, the criteria in Section 9.1 should be considered to be met only when the activities in the Preliminary Project Stage (see Section 9.2.4.a.) are completed and management authorizes and commits to funding the software project.

### 9.2.2 Application Development Stage- Allowable Capital Outlays

Only outlays associated with activities in the Application Development Stage of internally generated computer software should be capitalized. Activities in this stage include the design of the chosen path, including software interfaces, coding, installation of hardware, and testing, including the parallel processing phase. Capitalization of outlays should cease no later than the point at which the computer software is substantially complete and operational.

### 9.2.3 Capitalization of Data Conversion Costs

The cost of purchasing or developing software that provides for the conversion of old data or allows access to it by new systems may be capitalized if it is determined to be

necessary to make the computer software operational. Otherwise, it should be considered an activity of the Post-Implementation/Operation Stage (See Section 9.2.4.b). The determination of whether data conversion activities are necessary to make computer software operational will often depend on the nature of the software and its intended use.

#### 9.2.4 Ineligible Outlays

The following are generally not capital eligible outlays:

- a. Costs incurred in the Preliminary Project Stage of a project- These costs consists of activities associated with the formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software.
- b. Costs incurred in the Post-Implementation/Operation Stage of a project- These costs consists of application training and software maintenance.
- c. Data conversion costs occurring after the internally generated computer software is operational.

### 9.3 Right-of-Way Easements

An Easement is the right to use another person or entity's land for a stated purpose. It can involve a general or specific portion of the property. A Right-of-Way is a type of Easement that gives someone the right to travel across property owned by another person or entity.

#### 9.3.1 Valuing Donated Easements

For a donated Right-of-Way Easement, (i.e. a Right-of-Way Easement donated with a road by the developer) the outlay the City would have incurred to acquire the Easement in an exchange transaction may be used to estimate the fair value of the Easement. The configuration of the underlying land may influence the estimation of the fair value of a Right-of-Way Easement and the value should be greater than a nominal amount. (See GASB No. 51, par.74)

For a donated permanent Right-of-Way Easement under which little or no use of the associated land is left with the landowner (i.e. a Right-of-Way easement for a road) the fair value of the associated land generally can be used as a basis to estimate fair market value of the Easement (See GASB No. 51, par. 75).

## 10.0 CAPITAL ASSETS HELD FOR SALE

Inherent in the definition of a Capital Asset is the expectation that the resource is intended for use in the day-to-day operations and not acquired with the intent of resale. There

are, however, situations where land, buildings and other Capital Assets were acquired with the express purpose of sale rather than for use within the internal operations. In these instances, such assets are not considered Capital Assets but rather current financial resources (“assets held for resale”) which should be recorded within the General Fund. The following common situations are among those in which land, buildings and other Capital Assets are acquired for resale.

### **10.1 Foreclosure Assets**

Real property is sometimes acquired by means of foreclosure to collect amounts due for back taxes, penalties and interest. Such assets are almost always sold rather than retained by the City of New York. Accordingly, the asset should be recorded as a tax lien receivable in the General Fund and valued at the related lien amount or the net realizable value, if lower.

### **10.2 Redevelopment Properties**

Occasionally, properties in economically depressed areas may be acquired by the City for economic development and eventual resale to private-sector purchasers meeting certain criteria. Because such properties are acquired with the express intent of resale, they are properly valued at the lower of cost or net realizable value.

### **10.3 Donated Capital Assets**

Normally a donated asset should be recorded as a Capital Asset, at fair market value, until a sale occurs. In these instances, the agencies must process an FA document to record the Capital Asset. A Capital Asset must be reported in the General Fund, as an asset held for resale, when the intent to liquidate the asset is supported by a contract for its sale. In such instances, an FA document is not required.

## **11.0 INVENTORY CONTROLS OVER CAPITAL ASSETS**

Agencies must annually, and as needed, perform physical inventory counts to insure that their own internal inventory records are accurate. Agencies must insure that the Capital Assets inventory, as recorded in FMS Accounting, also agrees with these internal inventory records.

### **11.1 Recording and Disposition of Capital Assets**

Agencies must maintain their own level of inventory controls over both the recording and disposition of Capital Assets. The purpose of this section is to establish the minimum necessary information that Agencies should maintain internally in addition to what is included in

FMS Accounting. The agencies must reconcile their existing Capital Assets inventory with both their internal Capital Asset inventory records and to FMS Accounting prior to the end of a fiscal year, and more frequently if deemed appropriate.

#### 11.1.1 Buildings

Agencies must record the locations of all city-owned buildings and/or capitally leased space within non-city owned buildings in FMS Accounting. FMS Accounting notes all locations of buildings within an agency. Agencies must compare the physical inventory of their buildings and leased locations to their own internal records and the FMS Accounting inventory of buildings and locations. Existing buildings and/or betterments must be reflected on both the agency's internal records and in FMS Accounting. Buildings not recorded in FMS Accounting must be entered into FMS Accounting. Agencies must ensure that the proper value of the building, which would also include any betterment to the structure, is recorded in FMS Accounting.

#### 11.1.2 Furniture/Equipment and Vehicles

Each agency must maintain internal inventory records of all furniture, equipment and vehicles purchased with capital dollars. The Capital Assets inventory in FMS Accounting must be periodically reconciled with these permanent inventory records. Depending on the nature of the purchase, at the very minimum, the inventory records at the agencies must contain the following information:

- Type of equipment
- Manufacturer
- Serial number
- Location
- Date purchased and received
- Assigned Capital Asset number

#### 11.1.3 Identification Numbers

Capital Equipment inventory items must bear property identification tags. These tags must be of a sturdy material and indicate "Property of The City of New York" or a similar identification, with a sequential internal control number assigned and securely affixed to the item. All internal inventory records, at a minimum, must note the type of purchase, manufacturer, serial number and location. In addition, the assignment of an Accounting Capital Asset number for a Capital Asset must correspond to any internal control number assigned to the asset. Where necessary, agencies should maintain internal inventory records showing the internal control numbers and the related FMS Accounting Capital Asset numbers. (i.e.: inventory records for vehicles should include the Vehicle Identification Number as well as the corresponding FMS Accounting Capital Asset number). Inventory records must also be updated to account for any relocation of the asset.

#### 11.1.4 Infrastructure

Assets classified as infrastructure include streets, highways, bridges, traffic, parks, piers and bulkheads, etc., and are part of the Capital Assets inventory. Agencies must keep detailed

records relating to the expenditures for infrastructure projects.

#### 11.1.5 Modification to Capital Asset Inventory

Any changes to the Capital Asset inventory, such as changes to Capital Asset value, location or description, must have corresponding records, either manual or automated, maintained by the agency that identifies the data that have been changed.

#### 11.1.6 Agency Relinquishment Policy

Section 5.1 details DCAS' policy regarding the relinquishment of Capital Assets. Although Agencies are required to follow DCAS's relinquishment policies, each agency should develop its own policy for the evaluation and disposal of obsolete inventory. In accordance with other City requirements, the agency salvage officer is designated to inspect and certify the obsolescence of the Capital Asset presented for relinquishment.

### **11.2 Annual Physical Inventory Requirements**

In order to ensure the accuracy of existing inventory records, a complete physical inventory of all Capital Assets including buildings, equipment, vehicles and systems, within each agency, must be performed on an annual basis. The physical inventory count must be scheduled early enough in order to be completed and reconciled to both to FMS Accounting and the agency's internal Capital Assets inventory records prior to each fiscal year closing. Agency physical inventory procedures should include the following:

1. All existing Capital Asset equipment must be subject to the physical inventory count including items which are un-installed, un-issued or not in use as well as those Capital Assets maintained in storage facilities.
2. Agencies must maintain documented physical inventory procedures which have been reviewed and approved by the appropriate agency official. These procedures should be updated annually, based on any significant findings and/or exposures evident from the most recent physical inventory experience.
3. The physical inventory count must be conducted and supervised by individuals independent of the Capital Asset function or anyone responsible for the maintenance of the detailed Capital Asset inventory records, reconciliations and reports.
4. The results of the physical inventory must be documented as part of the agency's inventory control system and immediately reconciled to FMS Accounting and the agency's internal Capital Asset records, with any differences promptly investigated, resolved and appropriate adjustments recorded. If the service utility of Capital Assets in

inventory appears to have declined, they must be tested for impairment in accordance with Section 6.0. All unresolved discrepancies suggestive of lost or stolen Capital Assets should be referred to the Department of Investigation (DOI) for further investigation. An information copy of this agency discrepancy report must be forwarded to the Office of the Comptroller, Bureau of Accountancy, Capital Unit.

5. The results of each Capital Asset physical inventory, including all findings, discrepancies and correcting adjustments, with the appropriate substantiation, must be documented and maintained by the agency in accordance with its records retention schedules. The Department of Records and Information Records (DORIS) requires all agencies to maintain their own records retention schedules subject to DORIS approval and the approval of the Law department. The Director of the Records Management Division of DORIS should be contacted at (212) 788-8550 regarding any records retention questions.