



# CIRCULAR

## STATE OF NEW JERSEY

### DEPARTMENT OF THE TREASURY

NO.: 11-18-OMB	ORIGINATING AGENCY: OFFICE OF MANAGEMENT AND BUDGET (OMB)	PAGE 1 OF 6
EFFECTIVE DATE: 04-06-11	EXPIRATION DATE: INDEFINITE	SUPERSEDES: 01-07-OMB
SUBJECT: CAPITAL ASSETS		
ATTENTION: DIRECTORS OF ADMINISTRATION, FISCAL OFFICERS, FACILITIES DIRECTORS, AND CHIEF INFORMATION OFFICERS		
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#### I. Purpose

This circular prescribes policies to account for capital assets in accordance with Generally Accepted Accounting Principles (GAAP) and the Governmental Accounting Standards Board (GASB). Agencies should consult OMB Circulars: *Asset Inventory Requirements 11-19-OMB* and the annual *Fiscal Year-End Capital Assets, Impairments, and Certification Requirements* for additional information.

#### II. Introduction

In order to comply with GAAP concerning reporting requirements for capital assets, as set forth by the GASB, the State has established the Statewide Land and Building Asset Management (LBAM) system for repository of the State's capital assets. LBAM is an automated system designed to report and account for capital asset inventory for all State agencies. LBAM accumulates capital asset data and calculates the corresponding depreciation, which is ultimately reflected in the Comprehensive Annual Financial Report (CAFR). LBAM is not intended to include the capital assets of the autonomous colleges, universities, and authorities, which are accounted for and reported separately. The Department of the Treasury, Office of Management and Budget (OMB), maintains the central system. State agencies are responsible for the inventory, maintenance, and data entry of their assets into LBAM.

### III. Capitalization Policy

Capital Assets, both tangible and intangible, that meet the following criteria must be recorded in LBAM:

- A. A capital asset may be tangible, (i.e., have physical qualities) or intangible (i.e., something of value that cannot be physically touched, such as software programs, copyrights, trademarks, easements, etc.).
- B. The capital asset must possess a useful life of greater than one year.
- C. A capital asset is classified into the following classes: land (includes easements), land improvements, buildings, building improvements, infrastructure, and equipment (includes software).
- D. The following asset classes and minimum values must be reported in LBAM:
  1. Land and Easements – No Minimum Threshold
    - a. Land and easements, acquired by purchase, are recorded at cost to include the amount paid for the land itself and all incidental costs associated with the acquisition. Agencies should not include personnel costs.
    - b. Land and easements acquired by gift or bequest are recorded at the fair market value as of the date of the gift or bequest.
    - c. Easements include, but are not limited to, development rights, right-of-way, utility, aerial, etc.
    - d. When land is acquired with buildings erected thereon, the total cost should be allocated between the two asset classes in reasonable proportion at the date of acquisition. If the transfer document does not show the allocation, other information sources should be used, such as an appraisal or real estate assessment record.
    - e. Land and easements, acquired with other entities, should be recorded with the State's contribution only. Details of the full price and funding arrangement must be entered into LBAM land purchase module.
    - f. Land and easements, acquired with other entities (i.e., local governments or nonprofit organizations), and the entity(s) has received a grant from the State for the purpose of the acquisition and the condition of the grant stipulates a State interest, the agency should record both the State's direct contribution as well as the grant value in LBAM. The most common State interest is the prevention of the entity from selling the property without the written permission or reimbursement of funds to the State. Details of the arrangement must be entered into LBAM land purchase module.
  2. Land Improvements - \$25,000 Threshold
    - a. This category includes parking lots, outdoor lighting, covered walkways, fences, sidewalks, boat launches, docks, landscaping, etc.
    - b. When land improvements are acquired as part of a land purchase, the total cost should be allocated between the two asset classes in reasonable proportion at the date of acquisition.

### 3. Buildings – Owned, Leased, or Licensed-No Minimum Threshold

- a. Land and easements, acquired with other entities (i.e., local governments or nonprofit organizations), and the entity(s) has received a grant from the State for the purpose of the acquisition and the condition of the grant stipulates a State interest, the agency should record both the State's direct contribution as well as the grant value in LBAM. The most common State interest is the prevention of the entity from selling the property without the written permission or reimbursement of funds to the State. Details of the arrangement must be entered into LBAM land purchase module.
- b. Buildings will be recorded at either their acquisition or construction cost. If a building is acquired by purchase, the capitalized cost should include the purchase price and other incidental costs at the time of acquisition. Agencies should not include personnel costs.
- c. If a building is constructed, the capitalized cost should include all construction costs. The constructed building will be capitalized upon the issuance of a certification of occupancy, or when it becomes functional. Improvements to the land, such as parking lots, outdoor lighting, sidewalks, sewer connections, etc., should be reported as land improvements, provided that the costs may be reasonably separated from the building construction costs.
- d. All leased buildings must be entered into LBAM lease module.
- e. In certain cases, the State occupies a building where ownership is unclear or the State is solely responsible for all maintenance and improvements of the building. These buildings must be entered into LBAM.

### 4. Building Improvements - \$100,000 Threshold

- a. Component Construction Units (HVAC, plumbing systems, sprinkler systems, elevators, etc.) - When building component units are replaced, the new component unit will be capitalized separately, and the old component (subsequent to original construction) should be retired from the LBAM system. However, if the original component unit was included in the original construction, it will not be removed since it was not a separately valued component.
- b. Major Renovations or Alterations - Renovations performed over a period of multiple years should be evaluated on the total cost of the original intent of the project. For example, should an agency embark on a project to replace all the windows in a building over a period of four years and estimates the annual cost to be less than \$100,000, but the total cost to be over \$100,000, the agency must enter the project in the LBAM system in the year the expenditure occurs (see next section entitled "Construction in Progress").

### 5. Construction in Progress (CIP) – Projects With A Minimum Estimated Cost of \$100,000

- a. This category includes all construction projects for new buildings, building and land improvements, and software development/construction, which are incomplete at the end of the fiscal year and are projected to satisfy the respective minimum reporting threshold.
- b. Annual expenditures must be reported in the LBAM system during the year-end close-out.

6. Equipment - \$30,000 Threshold for Vehicles, \$20,000 Threshold for All Other Equipment
  - a. The Department of the Treasury's Central Motor Pool (CMP) is responsible for entering into LBAM all qualified vehicles that Treasury procures. CMP will record the entry in the purchasing agency's name during the year-end inventory process. It is the purchasing agency's responsibility to certify that the vehicle has been correctly reported. Agencies that acquire vehicles outside of CMP are responsible for entering the asset in LBAM.
  - b. The acquisition cost of the equipment should include all costs required for the original intent of the acquisition. For example, CPM purchases a vehicle (police interceptor) that fails to satisfy the threshold, the purchasing agency then installs additional equipment (lights, radios, etc.), which results in the combined cost exceeding the threshold. The purchasing agency is responsible for entering the asset into LBAM.
7. Software - \$100,000 Threshold
  - a. This category includes all software licensing, enterprise agreements, purchases, internally developed, and any combination thereof.
  - b. Maintenance agreements are not capitalized, unless an upgrade performed under the maintenance agreement results in a functional change or extends the life of the application.
8. Infrastructure - \$25,000 Threshold Land Improvement, \$100,000 Threshold Building Improvements, All New Building No Threshold
  - a. Infrastructure refers collectively to roads, bridges, railroads, communication systems, dams, sewer and water lines, and similar public works.
  - b. Infrastructure assets are sub-categories of the asset class and automatically identified when agencies enter the information into LBAM.
  - c. Infrastructure expenditures by the Department of Transportation are reported separately to OMB, and OMB records the expenditures into LBAM.
9. Leased Assets-All Leased Buildings, Land, Equipment \$50,000 Threshold, \$30,000 Threshold
  - a. Leased assets, which satisfy the respective thresholds, must be evaluated for the reporting of capital and operating leases in the CAFR. All agencies must send the lease contract, fair market value, and LBAM location of the leased asset to OMB-Financial Reporting, who will enter the information into LBAM.

#### **IV. Disposition of Assets**

When capital assets are sold or otherwise disposed of, the cost of the asset and the corresponding accumulated depreciation should be removed from the capital asset inventory. Assets will be removed on an annual basis in conjunction with the annual update. For additional information on the procedures for disposing of non-computer assets, please refer to Circular 08-03-DPP, Excess/Surplus Property Procedures found at <http://www.state.nj.us/infobank/circular/cir0803x.pdf>. DPP guidelines on the disposal of computer equipment are outlined in Circular 00-17-DPP Disposition of Excess & Surplus Computer Equipment found at <http://www.state.nj.us/infobank/circular/cir0017x.htm>. Agencies requiring additional information should contact the DPP's Surplus Property unit at (609) 530-3300.

## V. Reporting Responsibilities

- A. All building construction, renovation/demolition of buildings, or the purchase and/or sale of property that is not coordinated through the Department of the Treasury's Division of Property's Office of Design and Construction (DPMC) or the Office of Property and Lease Management, is the responsibility of the applicable agency and therefore must be reported by that agency.
- B. Acquisition of an asset through a series of regular contract payments, i.e., installment purchases of qualifying assets, as well as an asset acquired through Certificates of Participation or "Master Lease" financing, should be reported as if the asset was purchased.
- C. Each agency is responsible for reconciling and closing out DPMC managed projects in LBAM.
- D. Assets acquired through multi-year contractual agreements must be recorded at the full value of the contract. The agency is responsible for entering a liability record into LBAM. Contact OMB-Financial Reporting for assistance.
- E. The agency is responsible for coding the geographical informational state plain coordinate (North American Datum 1983) location of their land and buildings in LBAM.
- F. The agency is responsible for reporting and annually updating workspace allocation and employee counts by program in each building into LBAM.
- G. Historic and artistic holdings may be summarily submitted in "classification format" along with a written department policy stating that historic and/or artistic holdings are held for reasons other than financial gain; the collection is protected, kept unencumbered, is cared for and preserved; and all proceeds from sales of collection items are used to acquire other items for collections. Departments without a written policy must enter all historic and artistic holdings, including a monetary value at time of acquisition, into LBAM.

### 1. Documentation Requirements

- a. System definitions and instructions are available on-line via the LBAM system.
- b. Agencies are required to maintain and upload to the LBAM system, supporting documentation for equipment and software entries. The upload of supporting documentation is not required for DPMC managed construction or if the agency uploads support documentation to an archival retrieval system. Access to the agency's archival retrieval system must be granted to OMB and the Office of Legislative Services' State Auditor's Office.
- c. The New Jersey Comprehensive Financial System - reference transaction number must be posted to each asset entry. Transactions representing multiple acquisitions will require the agency to enter an adjustment. Adjustments must reflect accurate distribution of the funding source, i.e. General State Funds, Federal Grants, Bonding, etc. The agency should contact OMB if the reference transaction number is not available.

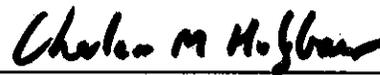
### 2. OMB Responsibilities

- a. OMB has developed the LBAM system, which is a standardized capital asset reporting system required to be used for all capital asset inventory tracking.

- b. OMB will provide each appropriate party with an inventory of assets that are in the LBAM system. These will be provided via standard inventory reports available to the agency within the LBAM application report menu. The asset listing should be reconciled to the June 30 physical inventory.
- c. OMB will offer training in the LBAM application; contact OMB at 609-292-9505 for additional information.

### 3. Agency Responsibilities

- a. Each agency will designate a unit/personnel responsible for updating the LBAM system.
- b. Each agency is required to provide an internal system that is capable of running the LBAM application.
- c. Each agency will also be responsible for conducting an annual physical inventory of fixed assets, which must be reconciled to the LBAM system.
- d. Agencies must refer to the Equipment Inventory Circular 11-19-OMB and the annual Year-end Capital Assets, Impairments, and Certification Requirements Circular.



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