

**COLORADO STATE UNIVERSITY**  
**Financial Procedure Instructions**  
**FPI 4-1**

1. **Procedure Title:** Property Management - Capitalization Thresholds for Capital Assets
2. **Procedure Purpose and Effect:** Procedures for all departments and organizations within the University regarding the dollar threshold for capitalization of fixed assets.
3. **Application of Procedure:** This procedure applies to all the departments/areas which maintain and are responsible for capital equipment as well as any departments purchasing assets.
4. **Exemptions:** Any exemptions to this procedure require approval by Business and Financial Services.
5. **Definitions:**
  - A. **Capital Equipment:** Equipment includes items which are not considered an integral part of a University building, are non-expendable, do not lose their identity through incorporation into a more complex unit, have a useful life of more than a year, and have an acquisition cost of \$5,000 or more, or another threshold if set by a contract, grant, or agreement. An item is non-expendable if it is characteristically restored to service by replacement of lost, worn or damaged parts. The acquisition cost of a University purchased item of non-expendable personal property should be recorded as the net invoice unit price of the property including cost of modification, attachments, accessories, or auxiliary apparatus necessary to make the property usable for the purpose of which it was acquired. Other charges, such as cost of installation, transportation (shipping and handling), taxes, in transit insurance, etc., shall be included in the unit acquisition cost. Training and annual maintenance costs are not part of the capital equipment and are expensed in the period incurred.
  - B. **Capital Lease Purchase:** The act of acquiring assets by making periodic payments, which generally consist of principle and interest. A capital lease transfers substantially all of the benefits and risk inherent in ownership of the equipment to the lessee.
  - C. **Infrastructure:** Consists of sidewalks, culverts, street signage, guard rails, curbs, bridges, traffic lights, tunnels, alleys, streets, roads, highways, etc.
  - D. **Internally Developed Software:** Software developed in-house by government personnel or by a third-party contractor on behalf of the government. Commercially available software that is purchased or licensed by the government and modified using more than minimal effort before being put into operation is considered internally generated.
  - E. **Land:** Any non-depreciable property purchased by the University. There is no capitalization threshold as to the total cost spent for land.
  - F. **Land Improvement:** Capital land improvements are those items which have a life of their own exclusive of the land or building(s) and are considered betterments to the property.

- G. Leasehold Improvements:** Represent physical enhancements made to property by or on behalf of the University and is made to property leased by the University. In these cases the University does not own the property, but has chosen to lease the property and to incur leasehold improvements.
- H. Lease Purchase:** A contractual agreement conveying the right to use property, plant, or equipment usually for a stated period of time. A lease agreement involves at least two parties, a lessor and a lessee. The lessor agrees to allow the lessee to use the item for a specified period of time in return for periodic payments. There are two types of lease-purchases available; an operating lease and a capital lease.
- I. Library Materials:** Includes all volumes, microfilm, government documents, manuscripts and archives, audio/visual materials (CDs, DVDs, Maps, software, music scores), and costs of binding/rebinding which are incurred by the University's recognized libraries.
- J. Operating Lease:** Includes a lessor (vendor), who collects rent, and a lessee (the university), who uses the leased equipment or property and pays periodic rent for such use. The lessee merely uses the equipment and/or property and there is no transfer of ownership or any risk of benefit of ownership.

**6. Procedure Statement:**

Capitalization acknowledges that a transaction meets all criteria necessary to be a fixed asset of the university, and recognizes depreciation expense for them. Listed below is the financial threshold for each asset category:

<b><u>Type of Asset</u></b>	<b><u>Capitalization \$ Threshold</u></b>
Art and Historical Collections	\$ 5,000 per item or collection
Building and Building Improvements	\$50,000
Equipment and Furniture	\$ 5,000
Intangible Assets	\$50,000
Land	All acquisitions will be capitalized
Land Improvements	\$50,000
Leasehold Improvements	\$50,000
Library Materials and Collections	Physical materials are capitalized Electronic materials are not capitalized
Software – purchased	\$ 5,000
Software – internally developed	\$50,000

**A. Art and Historical Collections:**

Art and museum objects are non-depreciable pieces or collections purchased or donated to the University. Art and museum pieces shall be capitalized at their historical cost or fair market value at time of acquisition, if that value is \$5,000 or greater. If a collection is greater than \$5,000 then it will be capitalized as a collection.

**B. Buildings and Building Improvements:**

Expenditures per building for new construction, alterations or renovations greater than \$50,000 and with a useful life > 1 year are capitalized. The costs per building project include expenditures related directly to their acquisition or construction. These costs include (1) materials, labor and

overhead costs incurred during construction, and (2) professional fees and building permits. All direct costs incurred from excavation to completion are considered part of the building project. Equipment which is merely attached or fastened to the building should be classified as equipment to the extent feasible. Equipment built into the structure is considered fixed equipment.

Structural remodeling and additions completed subsequent to the original building construction should be included under buildings as improvements to buildings. Improvements are capitalized only if the following conditions are met:

- The cost of the project is over \$50,000.
- The improvement provides an economic enhancement or extends the useful life of the building.

Examples of projects to capitalize include conversion of the use of the space (a classroom to a lab), adapt space to accommodate startup for a new faculty, replace roof, duct points or a new HVAC system. [Link to CFP – Plant Funds Assigning Project Accounts]

Example of projects to expense include conforming to construction codes, PCB removal, asbestos removal, handicapped access additions, cyclical maintenance such as paint, window and coverings, floor coverings, replacement of fixed equipment fixtures or major components due to premature breakdown, design flaws and unforeseen events. [Link to CFP – Plant Funds Assigning Project Accounts]

Appropriate documentation will be maintained to support what constitutes an enhancement or useful life extension.

#### **C. Movable equipment and furniture:**

An equipment item must meet two specific criteria in order to qualify as a capital purchase. It must have (1) an acquisition value of at least \$5,000 (unless part of a contract or grant where it specifically states equipment will be tracked at any value), and (2) a useful life expectancy of one year or greater.

#### **D. Land:**

All costs incurred in acquiring land or getting the land ready for its intended use should be considered as part of the land cost. These expenditures shall include (1) the purchase price, (2) closing costs such as title to the land, attorney's fees and recording fees, (3) costs incurred in getting the land in condition for its intended use, such as grading, filling, draining, and clearing, and (4) the assumption of any mortgages or liens.

If both a building and land are purchased, the cost of the land should be capitalized separately from the building cost.

#### **E. Land Improvements:**

The cost of a land improvement project must be \$50,000 or more to be capitalized. A land improvement project could include cost for utility lines, streets, sidewalks, parking areas, and athletic fields, among others. Land improvements differ from infrastructure and consist of paths, septic systems, athletic fields, bleachers, parking lots, fountains, fencing and gates, landscaping, yard lighting, etc.

**F. Leasehold Improvements:**

When improvements are made and those improvements are permanently affixed to the property, the title to those improvements transfer to the owner of the property at the end of the lease term. To be capitalized as leasehold improvements, the total cost of the improvements to the leased space must be \$50,000 or more. The capitalized costs incurred by the university in constructing leasehold improvements represent an intangible asset or a license to use the improvements.

**G. Library Materials and Collections:**

All physical and cataloged library acquisitions shall be capitalized. There is no capitalization threshold as to the total cost per unit. Departmental purchases of manuals or other professional guides not cataloged in the university library system will not be capitalized and neither will electronic library materials.

**H. Software Purchases:**

Software includes any acquisition of packaged software or individual licenses to software for use greater than one year and with a fair market value of \$5,000 or more. Software purchases should be assessed for capitalization at the system purchase level; the assessment should not be done based on individual disbursements or bundling, but on a per unit basis, such as cost per license. The cost of contracted installation and data conversion critical to the use of the software should be captured in the capitalization cost; however, any training, maintenance and/or annual license agreements to continue to use the software should be expensed.

**I. Internally Developed Software:**

Costs to be capitalized for internal software should be captured from the point management has authorized and committed funds till the program is in use. Internally developed software should be capitalized with a value of \$50,000 or more.

Types of costs capitalized:

1. Internal and External costs to develop or significantly modify the software.
2. Payroll and Payroll related costs of employees directly associated with the software project for configuration, developing interfaces, installation of hardware and testing.
3. Interest costs incurred while developing software.

Types of costs expensed:

1. Maintenance
2. Training
3. Data conversion incidental to the use of the software. For example: Historical information of closed accounts.
4. Expenses incurred in researching the software selection (including the options to buy or develop).
5. Annual License Agreements to continue using the software

**J. Capital Lease:**

The Vice President for Research is responsible for the overall management of CSU's participation in the CSURF lease/purchase program. The CSURF lease/purchase program is designed to meet the needs of Colorado State University System faculty and staff to acquire scientific administrative support, and research equipment to further their research and educational efforts.

**K. Infrastructure:**

It is the policy of the State of Colorado that only the Departments of Transportation and Natural Resources will record and report infrastructure capital assets. This category therefore will not be used for CSU, which falls under the Department of Higher Education.

**7. Reference and Cross-References:**

Property Management website: <http://busfin.colostate.edu/Depts/PropMgt.aspx>

Kuali User Documentation: <https://wiki.kuali.org/display/KULDOC/Home>

For examples for Journal Entries: [http://busfin.colostate.edu/Resources/Guides\\_Manuals.aspx](http://busfin.colostate.edu/Resources/Guides_Manuals.aspx)

**8. Forms and Tools: None.**