

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 any department or organization, within the University, regarding the dollar threshold for capitalization of fixed assets. Thresholds for capital equipment acquisition are necessary for accountability. Capitalization acknowledges that a transaction meets all criteria necessary to be a fixed asset of the university and recognizes depreciation expense for them.
3. **Application of Procedure:** This procedure applies to all departments or organizations that 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 or Office of Sponsored Programs for contracts, grants or agreements.
5. **Definitions:**
 - A. **Acquired Value/Acquisition Cost:** The standard asset value for property, regardless of age or use. The acquired value should be recorded as the net invoice unit price of the property. Other costs to include in the acquired value are services (such as shipping, insurance, modification, installation, etc.) as well as the cost of attachments, accessories or auxiliary apparatus necessary to make the property usable for the purpose of which it was acquired.
 - B. **Betterment:** An enhancement, modification, upgrade or other similar expenditure in connection with an existing asset, which significantly extends its useful life, increases its utility or efficiency, or otherwise adds to the benefits it can yield.
 - C. **Buildings and Improvements to Buildings:** Buildings include all structural elements of buildings, including the shells and components such as heating, air-conditioning and elevators. Equipment that is merely attached or fastened to the building should be classified as equipment to the extent feasible. Structural remodeling and additions costing in excess of \$50,000 completed subsequent to the original building construction should be included under buildings as improvements to buildings.
 - D. **Capital Asset:** The term Capital Asset is interchangeable with Fixed Asset (which is also known as Property, Plant and Equipment). A capital asset denotes that the capitalization process and the characteristics of the item qualify it for inclusion in the University Plant Fund. A capital asset is any property that benefits a program for more than one year and meets the established capitalization threshold.
 - E. **Capital Equipment:** Also known as movable 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 other threshold if set by a contract, grant, or agreement.
 - F. **Capitalization:** Capitalization acknowledges that a transaction meets all criteria necessary to be a fixed asset of the university. Capitalization does not necessarily mean that the university will be responsible for tracking the individual asset or that the individual asset is subject to depreciation or

amortization. Library books will not be tracked individually in the Capital Asset Management (CAM) System; however, the accumulated cost of these kinds of assets will be maintained in CAM to coincide with the University General Ledger.

- G. Construction:** The building of something, typically a large structure.
- H. Construction or Construction Project or Renovation:** Any construction, alteration, repair, demolition, or improvement of any land, building, structure, facility, road, highway, bridge, or other public improvement for use by or for the University, and maintenance of such facilities. This includes, without limitation:
 1. Purchase of land, regardless of the value thereof;
 2. Purchase, construction, remodeling, renovation, or demolition of buildings or other physical facilities, including utilities, to make physical changes for any reason, including, but not limited to, making programmatic changes, to meet standards required by applicable codes, to correct other conditions hazardous to the health and safety of persons which are not covered by codes, to effect conservation of energy resources, to effect cost savings for staffing, operations, or maintenance of the facility, or to improve appearance;
 3. Site improvement or development;
 4. Purchase and installation of the fixed and movable equipment necessary for the operation of new, remodeled, or renovated buildings and other physical facilities and for the conduct of programs initially housed therein upon completion of the new construction, remodeling, or renovation;
 5. Contracting for or performance of building trades and services, including, but not limited to, electrical, plumbing, painting, flooring, installation or removal of mechanical systems, paving, concrete work; and
 6. Purchase of the services of architects, engineers, land surveyors, industrial hygienists, landscape architects and other consultants to prepare plans, program documents, life-cycle cost studies, energy analyses and other studies associated with any construction project, and/or to supervise construction or execution of such capital construction projects.
- I. Depreciation:** Depreciation is a reduction in the value of an asset with the passage of time, due in particular to wear and tear. Asset lives are linked to the asset type code and are estimates of the useful life of the asset.
- J. Enhancement:** An increase or improvement in quality, value or extent.
- K. Estimated Useful Life:** The period over which an asset will be depreciated.
- L. Fixed Asset:** The term Fixed Asset, is interchangeable with Capital Asset, and includes personal property and equipment of a durable nature that has an estimated useful life to an organization of at least one year and meets the established capitalization threshold. A fixed asset does not actually have to be "fixed", in that it cannot be moved. A fixed asset is also known as Property, Plant and Equipment (PPE).
- M. Industrial Plant Equipment (IPE):** Equipment used for machining or otherwise altering the properties of materials, etc.
- N. Infrastructure:** Infrastructure assets 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 and consist of sidewalks, culverts, street signage, guard rails, curbs, bridges, traffic lights, tunnels, alleys, streets, roads, highways, railroads, fire hydrants, canals, waterways, dams, drainage ditches/systems, utility lines, etc. 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. Improvements of this nature are capitalized as land improvements in the Colorado State University books.

- O. Intangible Assets:** Intangible assets are capital assets having no physical existence. Their value is limited by the rights and expected benefits that possession confers to the university. Examples of intangible assets include easements, water rights, timber rights, patents, trademarks and computer software. Copyrights are also included as examples of internally generated intangible assets in GASB Statement No. 51, Paragraph 45. Intangible assets can be purchased or licensed, acquired through non-exchange transactions, or internally generated.
- P. Internally Developed Software:** Software developed in-house by CSU personnel or by a third-party contractor on behalf of CSU. Commercially available software that is purchased or licensed by CSU and modified using more than minimal effort before being put into operation is also considered internally generated. Examples of more than minimal effort would include changing code or fields, adding special reporting capabilities, testing, etc. No substantive plan exists or is being developed to market the software externally.
- Q. Internally Generated Intangible Assets:** Intangible assets are considered internally generated if they are created or produced by the university, or if they are acquired from a third party but require more than minimal incremental effort on the part of the university to begin to achieve their expected level of service capacity. Examples of internally generated intangible assets include; copyrights, patents, trademarks, and computer software.
- R. Land:** Land is non-depreciable property purchased by the university. There is no capitalization threshold as to the total cost spent for land.
- S. Land Improvements:** Capital land improvements are those items that have a life of their own exclusive of the land or building(s) and are non-infrastructure betterments to the property.
- T. Leasehold Improvements:** Leasehold improvements include betterments and additions made by the university to property that is leased by the university. The improvements become the property of the property owner upon expiration of the lease.
- U. Library Materials:** Includes all volumes, microfilm, government documents, manuscripts and archives, audio/visual materials (CDs, DVDs, maps, software, music scores, etc.), and costs of binding/rebinding which are incurred by the universities recognized libraries.
- V. Material:** Property which may be incorporated into or attached to an end item to be delivered under a contract or which may be consumed in the performance of a contract. It includes, but is not limited to, raw and processed material, parts, components, assemblies, and small hand tools and supplies.
- W. Materiality:** Materiality is the relative importance of the dollar amount of a transaction as the transaction affects and asset classification. There are different materiality dollar limits depending upon the classification groups of types of assets. Movable equipment must cost at least \$5,000 to warrant consideration for capitalization.
- X. Modification:** A minor change, adjustment or alteration of an asset resulting from external influences.

- Y. Movable Equipment:** Movable Equipment is interchangeable with Capital Equipment, has a life of more than a year and an acquisition cost of \$5,000 or more, or another threshold if set by a contract, grant, or agreement.
- Z. Non-Expendable:** Items such as equipment, instruments and tools that are not consumed in a manufacturing process, and which retain their original identity and characteristics during their useful life. An item is non-expendable if it is characteristically restored to service by replacement of lost, worn or damaged parts.
- AA. Real Property:** For purposes of accounting, classification means: (1) land and rights therein; (2) ground improvements; (3) utility distribution systems; (4) buildings; and (5) structures. It excludes foundations and other work necessary for the installation of special tooling, special test equipment and plant equipment.
- BB. Repair/Replacement Part:** A part that restores an asset to its original condition. The part must not be able to be used independently.
- CC. Software:** An application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program.
- DD. Software Enhancements and Upgrades:** Includes modifications to existing internal use software that result in additional functionality or enable the software to perform tasks that it was previously incapable of performing.
- EE. Spare Equipment:** An asset that can be used independently, however, is purchased with the intention of being a backup in case of failure of an existing asset.
- FF. Spare Part:** An item that cannot be used independently, however, is purchased with the intention of being a backup in case of failure of an identical part within an existing asset.
- GG. Special Test Equipment:** Electrical, electronic, hydraulic, pneumatic, mechanical or other items or assemblies of equipment that are inter-connected so as to become a new functional entity, causing the individual item or items to become interdependent and essential in the performance or special purpose testing in the development or production of particular supplies or services. The term does not include consumable property, special tooling, building and non-separable structure (except foundations and similar improvements necessary for the installation of special test equipment), or plant equipment items used for plant testing purposes.
- HH. Special Tooling:** Jigs, dies, fixtures, molds, patterns, taps, gauges, other equipment and manufacturing aids of such a specialized nature, that without substantial modification or alteration, their use is limited to the development or production of particular supplies or parts thereof, or the performance of particular services. The term encompasses all components of such items and includes foundations and similar improvements necessary for installation. It does not include consumable property, special test equipment, general machine tools or similar capital items, or building and non-separable structures.
- II. Systems:** Systems are defined as components that work together to perform one function. These components must be necessary for the system to function as a whole. Removal of any one

component would result in the system not operating at the required capacity or for the intended purpose.

JJ. Threshold: Monetary limits for assets to be capitalized.

KK. Upgrade: Raise to a higher standard, in particular improves an asset by either adding or replacing components.

6. Procedure Statement: Listed below is the financial threshold for each asset category:

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

A. Art and Museum Objects: 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 \geq 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 that is merely attached or fastened to the building should be classified as moveable 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:

1. The cost of the project is equal to or over \$50,000
2. 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.

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.

Appropriate documentation will be maintained to support what constitutes an enhancement or useful life extension. For further details, contact the Plant Fund Accountant.

C. Movable Equipment and Furniture: Movable equipment includes machinery (which is not a part of a building's mechanical system), scientific instruments, office machines, maintenance equipment, recreation equipment, vehicles, software, furnishings and other similar assets. Generally, equipment that is attached to a building is capitalized as movable equipment when removing the equipment does not cause structural damage to the building and will not destroy the equipment.

An item must meet two specific criteria in order to qualify as capital equipment. 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.

Assets are recorded net of cash and other earned discounts.

1. Acquisition Cost of Movable Equipment. Assets are recorded net of cash and other earned discounts. In addition, a trade-in allowance can result in the reduction of the acquisition value.

Other charges to include in the acquired value are:

- a. Cost of assembling the asset
- b. Cost of installation
- c. Shipping or Freight
- d. Transportation or In-Transit insurance
- e. Preparing the site and asset for its intended use
- f. Cost of modifications, attachments, accessories, or auxiliary apparatus necessary to make the property usable for the purpose of which it was acquired

Betterments will be capitalized according to the Business Rules for Modifying Existing Asset.

- If the betterment is purchased within the same fiscal year as the existing asset and costs \$1,000 or more, it is capitalized using "modify existing".
- If the betterment is purchased in a different fiscal year than the existing asset, it must meet the \$5,000 or more criteria. It is capitalized using "new" and the asset or decal number needs to be provided in the capital asset tab on the requisition. Property Management will determine if a new asset will be created or if the cost will be added to the asset by creating a new asset and using a dash on the existing asset's decal number.

2. Costs to Expense. Expenses should be recorded in the period incurred. The following are not considered capital equipment or included in the acquired value regardless of cost or useful life:

- a. Repair or replacement parts that are not considered a betterment
- b. Spare parts that cannot be used independently
- c. An item or substance that has no shape or identity, or loses that shape or identity upon detachment or removal from its original location
- d. Maintenance, Warranty, Support, or Service Agreements
- e. Training
- f. Travel not related to costs that may be included
- g. Demolishing or dismantling, reassembling or reinstalling due to movement or rearrangement of equipment
- h. Software license agreements are not capitalized unless ownership is indicated within the license agreement. Software license agreements not indicating ownership should be expensed to object code 6225 Computer Hard/Software or 6201 General Supplies
- i. Modular Furniture is normally purchased in individual pieces on separate line items and then configured to make furniture. The normal practice is to capitalize only those line items that meet the capitalization threshold. Any furniture items that are not modular and do not meet the capitalization threshold will be recorded as supplies and expensed (e.g., a conference

table costing \$4,000 would not be capitalized). Mass purchases of furniture are not capitalized (e.g., the purchase of 100 beds with a unit cost of \$700 each)

- D. Intangible Assets:** The cost of an intangible asset must be \$50,000 or more to be capitalized, with the exception of purchased software, which is capitalized at the cost of \$5,000 or more. See FPI 4-12 for additional information regarding intangible assets.

- E. Land:** Land is real property and is not subject to depreciation. All costs incurred in acquiring land or getting the land ready for its intended use should be considered as part of the land cost. If both a building and land are purchased, the cost of the land should be capitalized separately from the building cost. These expenditures shall include:
 - 1. The purchase price
 - 2. Closing costs such as title work, 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
 - 4. The assumption of any mortgages or liens

- F. Land Improvements:** The cost of a land improvement project must be \$50,000 or more to be capitalized. A land improvement project could include the cost for paths, septic systems, athletic fields, bleachers, tennis courts, golf courses, retaining walls, parking lots, fountains, fencing and gates, landscaping, sprinkler systems, swimming pools, yard lighting, playground equipment, etc. Land improvements differ from infrastructure that consists of improvements like streets, sidewalks, utility lines, etc.

- G. Leasehold Improvements:** Leasehold improvements represent physical enhancements by or on behalf of the university to property that is leased by the university. 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.

- H. Library Materials and Collections:** All physical and cataloged library acquisitions shall be capitalized. There is no capitalization threshold as to the 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.

- I. Software:** Purchased 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. Internally Developed Software threshold is \$50,000 or more. See FPI 4-7 (Fabrication of Equipment, Models and Deliverables) and FPI 4-11 (Software and Internally Developed Software) for additional information regarding fabrications, software, and internally developed software.

7. Reference and Cross-References:

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

GASB Statement No. 51: <http://www.gasb.org>

8. Forms and Tools:

KFS User's Manual is located at:

http://busfin.colostate.edu/Resources/Guides_Manuals.aspx (Under the Manuals heading)