Capital Assets [1]

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The following are procedures for the recording of capital assets and subsequent depreciation of capital assets consistent with Generally Accepted Accounting Principles (GAAP) and GASB 34/35 for governmental institutions. These were established to assure appropriate reimbursement by external sponsors through the recovery of facilities and administrative costs.

Capitalization Criteria

A capital asset is any physical resource with a useful life greater than one year and with costs exceeding a defined threshold. Capital assets include funds expended for land, improvements to land, buildings, leasehold improvements, equipment, library books and other specific items.

Land

All land to which CU has title shall be capitalized. The value of the land is the purchase price if sold to CU or fair market value if donated. When a building is purchased or donated to CU, the land value should be identified and separately recorded. Existing underground utilities are capitalized as part of the land value. See sections below for treatment of expenditures for demolition, landscaping, spoils management and other land improvements.

Improvements Other Than Buildings

Land Improvements

Improvements to land includes all expenditures of $75,000 or more for utility lines, roads, sidewalks, surface parking areas, lighting, bridges, tunnels, etc. Expenditures of $75,000 or more associated with spoils management or demolishing a building that cannot be identified easily to a specific new building or structure will be capitalized as part of Land Improvements. An on-going project such as installing utility lines may be capitalized in annual increments as the project is completed. All pollution remediation costs are expensed in the fiscal year incurred.

Leasehold Improvements

Permanent improvements (e.g. interior walls, plumbing, electrical wiring, parking lot resurfacing, etc.) to space leased by CU that cost in excess of $75,000 should be capitalized as a leasehold improvement.

Buildings: New Construction

Any new non-movable structure costing $75,000 or more should be capitalized as a building. If a building is purchased or donated to CU, the land value should be separately identified and recorded as land. Original complemental furniture and equipment (i.e. furniture and equipment purchased as part of the project budget) should not be capitalized as part of the building but should be capitalized as equipment if the cost of the item exceeds $5,000. If the individual furniture or equipment items cost below the $5,000 threshold they should be expensed. If equipment is affixed to the building and is not movable without significant de-installation, the equipment is considered to be fixed equipment and is capitalized as part of the building.

Buildings: Renovations

Any structural remodeling or renovations costing in excess of $75,000 should be capitalized and added to the historical cost of the building. Maintenance projects (e.g. painting, new carpets, etc.) that do not provide economic enhancement or life extension should not be capitalized. Economic enhancement is defined as a change to a building that makes the building more usable (e.g. increasing available space, changing the function of the space from an office to a research laboratory, etc.). The capitalization criteria for original complemental furniture, equipment and fixed equipment is the same as for new construction above.

Equipment

Acquisitions

A tangible item costing $5,000 or more and lasting more than one year is capitalized as equipment. If equipment is affixed to the building and is not movable without significant de-installation, the equipment is considered to be fixed equipment and is capitalized as part of the building.

Prepayments & Fabrications

For items on which we are paying before the equipment is put in service, such as for items assembled or fabricated or for down payments, add the equipment to PSAM effective when it is put in service.
Note: if this crosses June 30, such costs must be recorded as CIP-Equipment!

Payments in First Six Months

Multiple payments relating to a piece of equipment occurring over approximately the first six months of the equipment's life shall not be considered additions but rather part of the original acquisition. Therefore, set the beginning depreciation dates for such payments equal to the original acquisition date, and set their lives equal to that for the original acquisition.

June Equipment Purchases

Equipment purchases in June will not be added to the equipment asset until the new fiscal year because of tight year-end closing timelines to process it. Instead, purchases for June should be accrued to the CIP-Equipment account for June close, then reversed in July and capitalized as usual in the new fiscal year.

Group or Mass Purchase

Group or mass purchases of similar items (initial complement), which individually are less than the capitalization threshold, are not capitalized.

Additions

Subsequent additions to an existing piece of equipment must conform to the capitalization policy above and must be evaluated by the following criteria:

Addition of Quality or Quantity of Output

Additions that add to the quality or quantity of output should be depreciated over the remaining life of the original equipment. The original equipment must have a remaining life exceeding one year for this to apply.

Extension of Life

Additions that extend the life of the original equipment should be added to the remaining book value of the original equipment and depreciated over the new estimated remaining useful life.

Maintenance Expense

Any costs that neither add to the quality or quantity of the output nor extend the life of the original equipment are maintenance expense; they should not be capitalized regardless of cost.

Backbone

Additions to the backbone should only be capitalized if the cost is $5,000 or more each, in keeping with the general capitalization threshold. Assume any additions to the backbone extend its life, and therefore always assign a life of 60 months to such additions because of the modular nature of the backbone.

Library Materials

All library materials are capitalized based on actual cost. There is no capitalization threshold. This includes books, journals, magazines, microfilm, and audio-visual materials. Each month's purchase of such tangible library materials will be capitalized as a group and the number of volumes tracked, resulting in an average cost per volume.
Electronic resources (e.g. buying a license to access journals through the internet) and databases (unless it qualifies as software) will be capitalized if we retain access to historic data regardless of whether we continue our subscription. These shall be accounted for and capitalized separately from tangible library materials because of the difficulty of quantifying the number of volumes.

Works of Art, Historical Treasures, and Collections

Works of art and historical treasures should be capitalized at their historical cost or fair market value at the date of the donation. Generally, the threshold will be $5,000 but individual pieces of a collection could have a lower value. Rare library books will be capitalized as a collection if the collection's value exceeds $5,000.

Intangible Assets

Computer Software

Includes computer software purchased (including licenses) from a commercial vendor, internally developed, or contractor-developed to meet the University's internal needs. Costs of projects during the application development stage shall be capitalized. Typical costs include direct materials or services contributing to the project, payroll and payroll-related costs for employees directly associated with the project, testing costs and installation costs. Costs of projects in the preliminary project stage or the post-implementation/operation stage shall be expensed as incurred. The cost of upgrades and enhancements to capitalized computer software shall be capitalized only if the upgrades or enhancements provide additional functionality.

Other Intangible Assets

Intangible assets lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond one year. Common types of intangible assets include easements, patents, copyrights, trademarks, water rights, land or facility use rights, licenses, and permits. The acquisition cost must be at least $75,000.
The University has the ability to sell, transfer, license, or rent the asset to another party OR the asset arises from a contractual or legal right.

I. Capital Leases

A lease is a contractual agreement conveying the right to use property, plant or equipment for a specified 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 property, plant or equipment for a specified period of time in return for periodic payments. There are two types of leases; an operating lease and a capital lease.

An operating lease includes a lessor who collects rent, and a lessee who uses the property, plant or equipment and pays periodic payments for such use. The lessee merely uses the equipment. There is no risk or benefit of ownership. Payments for an operating lease are charged to expense.

A capital lease transfers substantially all of the benefits and risk inherent in ownership to the lessee. The lessee accounts for this type of lease as an acquisition of both an asset and related liability. Capital leases follow the capitalization threshold specified above for that category of assets. Substantially all of the benefits and risk of ownership have been transferred when one of the following four criteria has been met.

- The lease transfers ownership to the lessee by the end of the lease term.
- The lease contains a bargain purchase option. Exercise of the option must appear reasonably assured at the inception of the lease.

- The lease term is equal to 75% or more of the estimated economic life of the property, and the beginning of the lease term does not fall within the last 25% of the total economic life of the leased property.
- The present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property. The interest rate, used to compute the PV, should be the incremental borrowing rate of the lessee unless the implicit rate is available and lower.
- If none of the above are met, the lease should be classified as an operating lease.

J. Gifts in Kind

Capital gifts-in-kind shall be accepted and processed according to the procedures set forth in the Gifts in Kind chapter of the Accounting Handbook. They are assigned a value based on estimated fair market value and depreciated in keeping with the policies set forth herein for the appropriate asset class.

Depreciation Calculations

Depreciation on assets is calculated using the straight-line method. Depreciation is calculated monthly using the Fixed Asset and Space Tracking (PSAM) System. The first month of depreciation is the month of acquisition. Should this not be the in-service date? Many items have to be assembled and are put into service months after the acquisition date. No depreciation is calculated in the month of disposition.

- Land - Land is not depreciated.
- Land Improvements - Land improvements are generally assigned a useful life of 20 years unless campus experience and the nature and circumstances of the improvements indicate a more appropriate life.
- Buildings: New Construction - New construction is generally assigned a useful life of 40 years. However, building components may be identified separately and assigned useful lives that reflect the period of time that the asset is expected to be in service before needing to be replaced. Generally, buildings are componentized in three major categories: Building Shell, Building Systems, or Fixed Equipment.
  - Many sub-categories may exist within these major categories.
  - CU determines the useful life of building components based on historical experience at CU. If it is known that a building will be taken out of service prior to the 40-year or componentized useful life, the shorter known life expectancy should be used.
- Buildings: Renovations - Each renovation project is tracked separately and depreciated over 20 years. If it is known that a building will be taken out of service prior to the 20-year or componentized useful life, the shorter known life expectancy should be used.
- Leasehold Improvements - Leasehold improvements should be depreciated over the expected life of the lease. Leasehold improvements on perpetual leases should be depreciated over 20 years.
- Equipment - Each type of equipment is assigned an estimated useful life based on historical experience at CU. If no history exists, industry standards may be used. If an addition is considered to be an economic enhancement and the useful life of the equipment is extended, depreciation should be re-calculated for the total cost of the item based on the new life.
- Library Materials - Since individual library materials acquisitions are not tracked, library

materials purchases will be capitalized monthly and depreciated as a group. They are assigned lives consistent with CU's experience for the nature of the collection. Books are generally depreciated over 10 years unless campus experience indicates a more appropriate life. Film is generally depreciated over 18 years.

- Software - Software should be assigned a useful life based on the expected period of time it will provide benefits. If there is no specific evidence for a better estimate of life, 5 years should be used.
- Works of Art, Historical Treasures and Rare Collections - Generally, these works are not exhaustible and do not need to be depreciated. However, if the item is one that is diminished by display or educational or research applications, then the item should be depreciated over its estimated useful life.
- Intangible Assets - Intangible assets should be depreciated over their estimated useful lives. Intangible assets that have indefinite useful lives should not be amortized. Water rights/ditch rights in Colorado have a market value that is tracked and typically have an indefinite useful life, so they would be capitalized but not amortized.
- Capital Leases - Assets under capital lease based on transfer of ownership or a bargain purchase option shall be depreciated over lives consistent with their asset classes specified above. Assets under capital lease based on the useful life and present value criteria shall be depreciated over the lease term down to the expected or guaranteed value at the end of the lease term.

Disposal of Assets

All items must be tracked and when disposals occur, the asset value and accumulated depreciation are removed from the accounting records.

- Item Sold - When the sale or loss of an asset occurs, the total historical cost of the asset should be removed from the books along with the corresponding accumulated depreciation. A gain or loss should then be recorded for the difference.
- Equipment Traded-in - Equipment that is traded-in may have some residual value (historical cost less accumulated depreciation). This amount should be added to the acquisition cost of the new equipment. The equipment traded in should be removed from the equipment asset balance and the related accumulated depreciation should also be removed.
- Lost or Retired - When equipment is lost or retired, the total historical cost of the equipment should be removed from the books along with the corresponding accumulated depreciation. A gain or loss should then be recorded for the difference.If it is found, it should be reinstated by reversing the retirement and catching up depreciation.

Additions

Upon disposal of equipment, consider whether any additions are also being disposed of or not. If not, the addition must be removed from the old tag before it is marked disposed, then it must be added to the new tag of which it will become a part. Additions that are not uniquely identifiable, such as the backbone, should be disposed of like library books using the FIFO assumption, that is, that the oldest items are disposed first, which will normally result in disposals being fully depreciated.

- Library Materials - The number of tangible library materials disposed shall be identified each year and historical cost will be determined using the average cost method. Such average cost as of the end of the prior fiscal year shall be removed from the books along with the corresponding accumulated depreciation. A gain or loss should then be recorded for the difference.

Since no average cost per volume is possible for capitalizable electronic resources, they should normally be assumed to live out their full lives. At the end of their useful lives the asset and related accumulated depreciation shall be removed from the books.

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