Capital Assets [1]

In Brief

- A capital asset is a resource with a useful life greater than one year and with costs exceeding a defined threshold (the threshold varying by specific item).
- ?Organizational units need to know when an asset must be capitalized – meaning that the item's value is identified and recorded in the asset management module of the Finance System, and, if appropriate, how to report the asset's reduction in value over time.

Quick Look

Procedural Statement - *effective date: 03/11/2024 (click on Revision Log toggle to see what changed on this date)*

Capitalization Criteria

A capital asset is a non-financial asset 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.

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 (e.g., for items assembled or fabricated, or for down payments), add the equipment to the asset management module in the FInance System effective when it is put in service. If this crosses June 30, record the cost 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. 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 acquired together, which are individually less than the capitalization threshold but in the aggregate are over $75,000, should be capitalized. At the University, most bulk purchases will not meet this threshold. Any questions should be directed to the Office of University Controller [2].

Additions: Subsequent additions to an existing piece of equipment must conform to the capitalization procedures above and must be evaluated according to 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. Any additions to the backbone are assumed to extend its life, and therefore a life of 60 months is assigned 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 from a commercial vendor, internally developed, or contractor-developed to meet the University's internal needs, costing $5,000 or more.

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.

Subscription-Based Information Technology Arrangements (SBITAs): A SBITA is a contract that conveys control of the right to use information technology (IT) software alone -- or in combination with tangible capital assets (underlying IT assets) -- for a period of time in an exchange or exchange-like transaction. The subscription term includes the period during which a government has a noncancellable right to use the underlying IT assets. A right-to-use subscription asset -- an intangible asset -- and a corresponding subscription liability should be recognized when the initial year's total annual subscription payments are $10,000 or more.

The subscription liability should be recognized at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the University's incremental borrowing rate if the interest rate is not readily determinable. Amortization of the discount on the subscription liability should be recognized as interest expense in subsequent financial reporting periods. The subscription liability should be recognized at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the University's incremental borrowing rate if the interest rate is not readily determinable. Amortization of the discount on the subscription liability should be recognized as interest expense in subsequent financial reporting periods.

Other Intangible Assets: Intangible assets lack physical substance, are non-financial 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.

Leases (under GASB 87)

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.

Lessee Accounting

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Leases with (a) initial total annual fixed lease payments of $20,000 or more, or (b) total recurring future minimum lease payments of $100,000 or more, should be capitalized.

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

Lessor Accounting

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

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 and Amortization

Depreciation on assets is calculated using the straight-line method. Depreciation is calculated monthly using the asset management module of the Finance System. The first month of depreciation is the month of acquisition. 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.
- A lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The amortization of the lease asset should be reported as an outflow of resources (for example, amortization expense), which may be combined with depreciation expense related to other capital assets for financial reporting purposes.

Disposal

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

Federal Awards - When equipment acquired under a Federal award is no longer needed for the original project, disposition instructions must be requested from the Federal awarding agency.

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.

Revision Log

Updates 03/11/24: Clarified capitalization threshold for software.

Updates 12/22/23: Updated materiality for Intangible Assets-SBITAs to be effective 7/1/23.

Updates 12/1/22: Revisions are largely related to changes in how software licenses are stated on financial statements. The University is required to adopt the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96 Subscription-Based Information Technology Arrangements (SBITAs). Additional revisions include: added threshold to Lessor Leases, added Federal Awards reminder to Disposal section, updated mass purchases in Equipment section.

Updates 11/18/21: Revisions are largely related to how leases are recognized and disclosed on financial statements. The University is required to adopt the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87 Leases beginning in Fiscal Year 2022. The impact of adoption will be retroactive to July 1, 2020 (Fiscal Year 2021). This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Supersedes Accounting Handbook Capital Assets procedures dated 1/1/14.

Questions

Questions about these procedures should be directed to the appropriate campus contacts, below, who will consult with the Associate Vice President & University Controller, as appropriate.

- Boulder Campus: property@colorado.edu [3], russell.jeans@colorado.edu [4]
- UCCS: acctfinc@uccs.edu [5]
- Denver | Anschutz Medical Campus: Finance.AM@ucdenver.edu [6]
- System Administration: accounting@cu.edu [7]

Exceptions

Unless approved by the Associate Vice President & University Controller, there are no exceptions to this procedural statement. Requests for approval of exceptions must be submitted through the campus controller's office. [8]

Questions & Feedback [9]

Feedback or Question *

Your Name

Your Email Address

CAPTCHA

This question is for testing whether or not you are a human visitor and to prevent automated spam submissions.

Submit

Groups audience:
Controller
Right Sidebar:
AH Capital Assets CTA Side
AH Capital Assets Side Nav
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OUC-Where Policies

Source URL:https://www.cu.edu/controller/procedures/accounting-handbook/capital-assets

Links
[1] https://www.cu.edu/controller/procedures/accounting-handbook/capital-assets
[2] mailto:accounting@cu.edu?subject=Question%20on%20Group%20or%20Mass%20Purchase%2FCapital%20Assets
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