COLORADO STATE UNIVERSITY
Financial Procedure Instructions
FPI 4-11

1. **Procedure Title:** Property Management – Software and Internally Developed Software

2. **Procedure Purpose and Effect:** Procedures for all departments and organizations within the university regarding software and internally developed software. Software can be purchased or licensed, acquired through non-exchange transactions, or internally generated. The purpose of the procedure is to outline the accounting treatment for software, internal use software expenditures, and internally developed software to ensure proper software asset management. The university's Kuali Financial System (KFS) allows for the accumulation of costs of internally generated software to work-in-progress accounts when the anticipated total cost is equal to or exceeds $50,000. The accumulated costs are transferred from the work-in progress account to the account that the finished product will reside in upon completion.

3. **Application of Procedure:** This procedure applies to those departments or organizations that maintain and are responsible for purchasing software or internally developing software. Refer to FPI 4-7 (Fabrication of Equipment, Models and Deliverables) regarding fabrication of equipment, models, & deliverables & FPI 4-12 (Intangible Assets and Internally Generated Intangible Assets) regarding intangible assets and internally generated intangible assets.

4. **Exemptions:** Internally developed software that in aggregate will be less than $50,000.

5. **Definitions:**

   A. **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.

   B. **Enhancement:** An increase or improvement in quality, value or extent.

   C. **Estimated Useful Life:** The period over which an asset will be amortized.

   D. **Fabrication:** A manufacturing process in which an item is made from raw or semi-finished material instead of being assembled from ready-made components or parts.

   E. **Impairment:** In assessing estimated useful life, entities should consider the effects of obsolescence, technology, competition and other economic factors. If any of these affect the value or useful life of the asset, an asset is considered impaired and should be adjusted in the general ledger.

   F. **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.

   G. **Internal Use Software:** Software that is purchased from commercial vendors "off the shelf" (COTS), internally developed, or contractor-developed solely to meet CSU's internal or operational needs, and

during the software's development or modification, no substantive plan exists or is being developed to market the software externally. For the purpose of this guidance, internal software includes:

1. Internally developed software that employees of CSU actively develop, including new software and existing or purchased software that are modified with or without a contractor's assistance;

2. Contractor-developed software where CSU pays a contractor to design, program, install and implement, including new software and the modification of existing or purchased software.

H. **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 considered internally generated. Examples of more than minimal effort would include changing code or fields, adding special reporting capabilities, etc. No substantive plan exists or is being developed to market the software externally.

I. **Maintenance Fee:** Service charge assessed, typically based on the number of licenses, for the vendor to support or keep the software functioning as intended (i.e., maintain the software).

J. **Modification:** A minor change, adjustment or alteration of an asset resulting from external influences, and not inheritable.

K. **Software:** An application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program.

L. **Software-as-a-Service (SaaS):** A software licensing and delivery model in which software is licensed on a subscription basis and is centrally hosted. It is sometimes referred to as "on-demand software". SaaS is typically accessed by users using a thin client via a web browser.

M. **Software Enhancements and Upgrades:** Includes modifications to existing internal use software that result in additional functionality; modifications to enable the software to perform tasks that it was previously incapable of performing.

N. **Software License:** A per unit or concurrent unit right to use software.

O. **Software Package:** Software purchased or licensed with the software code already written and developed. The useful life must be over 1 year.

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

6. **Procedure Statement:** Colorado State University will respect and adhere to all computer software copyrights and adhere to the terms of all software licenses to which CSU is a party. Only legal software should be installed on CSU PCs (including portables) and servers. Unauthorized duplication of software may subject users and/or CSU to both civil and criminal penalties under the United States Copyright Act. Colorado State University must not permit any giving software to or receiving software from clients, contractors, customers and others. Software acquired will be distributed in accordance with the terms and conditions in any license agreement accompanying a particular software product. Costs to be capitalized for internally developed software should be captured from the point management has authorized and committed funds until the program is in use. CSU will account for the costs incurred to acquire, develop, maintain or enhance internal use software.

A. Capitalization Thresholds:

Software - purchased	$5,000
Software – internally developed	$50,000

B. Software Purchases: 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. 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 purchase price of the software package, the cost of contracted installation labor (no training or maintenance if it can be separated), payroll and payroll related cost of employees directly associated with the software project, and data conversion critical to the use of the software (i.e. General Ledger Accounts and balances), should be captured in the capitalization cost; however, any training, maintenance, data conversion incidental to the use of the software (i.e. Historical information), and/or annual license agreements to continue to use the software should be expensed.

1. **Licenses, Maintenance Fees, Service Contracts**: CSU shall not capitalize annual software licenses or maintenance fees incurred to use or maintain software. CSU shall not capitalize multi-year service contracts.
   a. Software licenses; however, can cover periods ranging from the entire estimated service life of the software ("perpetual license") to annual or more frequent periods. If the software is considered Software-as-a-Service (SaaS) and CSU will not obtain ownership, these costs will be expensed.
   b. Multi-year service contracts may include hosting arrangements. If a contractual right to take possession of the software during the hosting period without significant penalty exists and it is feasible for CSU to run the software on its own hardware or contract with another party unrelated to the vendor to host the software, the contract will be evaluated further and the costs associated with this arrangement may be capitalized.

C. Internally Developed Software: Outlays incurred for the development of an internally generated intangible asset that is identifiable should be capitalized only upon the occurrence of all of the following:

1. Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project
2. Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity
3. Demonstration of the current intention, ability and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset. Evidence of intention, ability, and presence of effort to complete the intangible asset may include budgetary commitments for funding the project, reference to the project in strategic planning documents, commitments with external parties to assist in the creation of the intangible asset, and efforts to secure the university's legal rights to the projects

D. Internally Developed Software WIP or SPWIP: Costs for any internally generated software must be accumulated in a work-in-progress (WIP or SPWIP sub-fund) account. The source of a SPWIP account is a sponsored project fund account. The source of a WIP account is any other university fund account.

1. When a department has identified the need to set up an account to capture costs for fabricating internally developed software, they will need to submit a request to set up a Work-in-Progress account.
   a. For 53 funds, a SP-11 form, found on the OSP webpage, should be returned to Sponsored Programs.
   b. For all other accounts, an 89 Account Create document should be submitted. The project start and end date, estimated budget, and funding account will need to be provided. The document will route to the Asset Processor in Business and Financial Services. Once approved, the department can set up a subaccount if multiple projects are on the same funding account.
2. Monthly, the costs are transferred from the SPWIP sub-fund or WIP account to the account that will ultimately receive the benefit from the completed software.
   a. The SPWIP account is administered by Sponsor Programs.
   b. The WIP account is administered by Business and Financial Services Asset Processor.
3. Costs that **may** be charged to a SPWIP sub-fund or WIP account include:
   a. Internal and External costs to develop or significantly modify the software
   b. Payroll and Payroll related costs of employees directly associated with the software project for configuration, developing interfaces, installation of hardware, and testing
   c. Interest costs incurred while developing software
4. Costs that **may not** be charged to a SPWIP sub-fund or WIP account include:
   a. Salaries of principal investigators or administrative personnel (project managers and other managers)
   b. Maintenance
   c. Training
   d. Data Conversion incidental to the use of the software. For example: Historical information of closed accounts, purging/cleansing of existing data, and reconciliation of data
   e. Expenses incurred in researching the software selection (including the options to buy or develop)
   f. Facilities rental
   g. Annual License Agreements to continue using the software
5. *Stages.* The activities within the three stages of development may occur in different sequence. It is the nature of the activities done in the application/development stage that require capitalization, not their timing. Outlays associated with application training activities that occur during application development stage should be expensed.
   a. Preliminary Project Stage. Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software. The cost of this stage should be expensed.
   b. Application Development Stage. Activities in this stage include the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing, including the parallel processing phase. The cost of this stage should be capitalized provided the following conditions are met:
      - The outlays were incurred subsequent to the completion of the preliminary project stage
      - Management authorizes and commits to funding (either implicitly or explicitly), at least through the current period

For commercially available software that needs to be modified, both of these conditions generally are met at the time a government makes the commitment to purchase or license the software.

    c. Cease capitalizing when software is substantially complete and operational (i.e., ready for use).

    d. Post-Implementation/Operating Stage. Activities in this stage include application training and software maintenance. The cost of this stage should be expensed.

When the software development is finished, the total costs should be transferred into an equipment software object code with the use of a Distribution of Income and Expense (DI) document. At that time, the Property Management Office will assign and affix a decal to the final product.

E. Internally Generated Modification of Computer Software: Outlays associated with an internally generated modification of computer software that is already in operation should be capitalized if they qualify as Application Development Stage activities and result in any of the following:

    1. An increase in the functionality of the computer software, that is, the computer software is able to perform tasks that it was previously incapable of performing

    2. An increase in the efficiency of the computer software, that is, an increase in the level of service provided by the computer software without the ability to perform additional tasks

    3. An extension of the estimated useful life of the software

        a. Maintenance: If the modification does not result in any of the above outcomes, the modification should be considered maintenance, and associated outlays should be expensed as incurred.

F. Impairment Indicator: The provisions for accounting and financial reporting for impairment of capital assets contained in GASB Statement No. 42 are applicable to intangible assets. In addition to the indicators included in Paragraph 9 of GASB Statement No. 42, a common indicator of impairment for internally generated intangible assets is development stoppage, such as stoppage of development of computer software due to a change in the priorities of management. Internally generated intangible assets impaired from development stoppage should be reported at the lower of carrying value or fair value.

G. Inventory Requirements: In order to inventory software, the department must ensure that the software is still in use by demonstrating the software or providing a screen shot of the software. When the software is no longer in use, the asset should be retired by submitting an Asset Edit document transferring the asset to Surplus Property requesting software termination.

7. <u>Reference and Cross-References</u>:

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

Office of Sponsored Programs website: https://www.research.colostate.edu/osp/

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

8. <u>Forms and Tools</u>:

Property Management Agency Account Request form located at:
http://busfin.colostate.edu/Resources/Forms.aspx (Under Accounting Misc.)

Sponsored Programs SP-11 form located at:

https://www.research.colostate.edu/osp/wp-content/uploads/sites/21/2019/05/WorkInProgress-account_request.pdf (Under Forms Heading Sponsored Programs Forms Subheading)

For examples of Journal Entries located at:
http://busfin.colostate.edu/Resources/Forms.aspx

KFS User's Manual is located at:
http://busfin.colostate.edu/Resources/Guides_Manuals.aspx (Under the Manuals Heading)