

COLORADO STATE UNIVERSITY
Financial Procedure Instructions
FPI 4-7

1. **Procedure Title:** Work-in-Process: Equipment and Model Fabrications
2. **Procedure Purpose and Effect:** The University's Kuali Financial System (KFS) allows for the accumulation of costs incurred in the fabrication of equipment, models, internally developed software or other internally generated intangibles to work-in-process accounts. The accumulated costs are transferred from the work-in-process account to the fund and account that owns the finished product. Since a purchase of such equipment, model, software or other intangible asset would not be subject to F&A costs, fabrication is exempt from such costs. These accounts may also be used for special projects for Telecommunications and Facilities Management upon approval from Business and Financial Services.
3. **Application of Procedure:** The purpose of this FPI is to outline the procedure for establishing and utilizing work-in-process accounts for the fabrication of equipment and the creation of models. FPI 4-11 addresses Internally Developed Software and FPI 4-12 addresses Internally Generated Intangibles.
4. **Exemptions:** Any exemptions to this procedure require approval by Business and Financial Services and/or Office of Sponsored Programs.
5. **Definitions:**
 - A. **Capital Asset:** The term Capital Asset is used in place of fixed asset and 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 physical property that benefits a program for more than one year and meets the established threshold. Examples are machinery (which is not a part of a building's mechanical system); furniture and furnishings; instructional and research equipment; athletic and recreational equipment; household, hospital and library equipment, vehicles, aircraft and watercraft. Capital asset expenditures include funds expended for land, improvements to land, buildings, leasehold investments, equipment, and library books.
 - B. **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 acquired value 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 assembly, installation, transportation (shipping and handling), taxes, in transit insurance, preparing the site and asset for its intended use, 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.
 - C. **Capital Model:** A capitalized model is intended for continued use for more than one year, even though it may be subjected to numerous modifications during its useful life.

- D. Deliverable:** A tangible or intangible object produced as a result of a project that is intended to be delivered/provided to a customer (either internal or external) upon the completion of the project.
- E. Fabrication:** The creation of an item of equipment or scientific instrument that is built or assembled from individual parts.
- F. Facilities and Administrative Costs (F&A Costs):** Facilities and Administrative costs are the indirect overhead costs. F&A rates are negotiated with the U.S. Department of Health and Human Services. F&A rates are applied to modified total direct costs of a project (Sponsored Funds).
- G. Model:** A model is similar to equipment but is used and consumed in testing.
- H. Non-Capital Model:** Models that last less than one year.
- I. Sponsored Work-in-Process Account (SPWIP):** A sponsored project fund account (88) that has been established for the purpose of recording the costs of an approved fabrication of equipment.
- J. Work-in-Process Account (WIP):** A university fund account (89) that has been established for the purpose of recording the costs of an approved fabrication of equipment.

6. Procedure Statement:

Costs for any constructed equipment, model, internally developed software, or internally generated intangibles must be accumulated in a work-in-process (WIP or SPWIP) 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.

Monthly, the costs are transferred from the WIP or SPWIP account to the account that will ultimately receive the benefit from the completed equipment, model or software. The SPWIP account is administered by Sponsored Programs. The WIP account is administered by Business and Financial Services.

Costs that may be charged to a WIP or SPWIP account include:

- Materials needed to fabricate equipment or models.
- Software purchased as part of the implementation or development.
- Services needed to fabricate equipment, models or develop software.
- Salaries of technicians performing the actual fabrication or programming development.
- Any other costs that can be specifically identified as directly related to the equipment fabrication.

Costs that may not be charged to a WIP or SPWIP account include:

- Salaries of principal investigators or administrative personnel. Salaries should be recorded in the funding account,
- Travel expenses,
- Indirect costs (charged to funding source if applicable).
- Salaries of clerical support staff,

- Facilities rental,
- Capital Equipment, and
- Any other costs that cannot be specifically identified as directly related to the equipment, model or software development. Example: postage.

When the equipment, model or software development is finished, the total costs will be transferred into an equipment object code.

A. Movable Fabricated Equipment and Software

*Movable fabricated equipment and internally developed software is an asset created (built) by a university organization. A fabrication is not something that can be configured at a store or assembled (like a system) by the organization. The cost of individual components may be less than the capitalization limit; however, the finished, tangible asset must have a total cumulative cost that does meet the capitalization limit in order to be capitalized. Materials and **direct labor** used in the construction of the asset can be capitalized as part of the fabrication. Direct labor for fabrications is defined as all hands-on assembly labor of the fabricated equipment, plus the direct supervision of that hands-on labor. Labor associated with research and the design of a fabricated asset should be expensed. In addition, labor costs that are impossible or impractical to trace to a specific fabrication should be expensed. Items having an acquisition value of \$5,000 or more will be capitalized on their own merit if they are, or can be, stand-alone equipment (i.e., a computer, a power supply unit, etc.)*

The term "Fabrication" is used in conjunction with movable equipment and internally developed software and should not be confused with building construction projects or deliverables. Fabricated equipment/software can be distinguished by anyone of the following characteristics:

- a. Original Development. The fabrication construction creates a one-of-a-kind piece of equipment or software that is built (designed) and assembled from individual parts for use within the university.
- b. Original Components. The original components bear no relationship to the finished equipment and should be attached to, or internal to the finished equipment. The original components should not include equipment that can be used independent of the fabricated asset.

B. Models

A model is similar to equipment but is used and consumed in testing. An example is a wind tunnel model that is destroyed during testing. Models that last less than one year are recorded as an operating expense and are subject to F&A costs. A capitalized model is intended for continued use for more than one year, even though it may be subjected to numerous modifications during its useful life. Capitalized models are recorded as capital expense and are exempt from F&A costs.

7. Reference and Cross-References: OMB 2 CFR 200 Uniform Guidance and GASB-34

8. Forms and Tools:

For detailed procedures contact Business and Financial Services.

http://busfin.colostate.edu/Resources/Guides_Manuals.aspx