BANNER FINANCE MODULE

THE UNIVERSITY OF NEW MEXICO

Fabricated Equipment – End User Guide

Inventory Control

May 20, 2020

## Overview

Occasionally, there is a need to build a piece of equipment for functionality that doesn't currently exist. Federal sponsoring agencies often refer to these as Special Test Equipment (STE) or Special Tooling (ST). Fabricated equipment is defined as an item of non-expendable and non-consumable, tangible, personal property, with a useful life greater than one year upon completion of the fabrication of the equipment built by the department. The fabricated equipment is usually built by purchasing components to build the piece of equipment. When the project is complete, all of the components must be permanently and intrinsically attached to each other to result in one standalone capital equipment item. The purpose of this guidance is to define criteria and procedures for the inclusion of Fabricated Equipment on research projects sponsored by the federal government, so that such charges are in compliance with federal regulations and University policies.

**This Fabricated Equipment guidance does not apply when the purpose of the sponsored project is construction of experimental equipment, i.e., when the equipment is a deliverable or for equipment intended for transfer to any organization outside the University.**

## Criteria

The fabrication must meet ALL of the following to meet the definition of UNM equipment:

1. The total cost of acquired materials, supplies, and components must be $5,000 or more. All items acquired for a fabrication must be permanently integrated into the resulting discrete, stand-alone item.
2. The fabrication results in a unique, stand-alone, tangible item capable of specific identification and continuous control through tagging and periodic physical inventory.
3. No components of the equipment are expendable or consumable and the completed fabrication will have a useful life of more than one (1) year following the later of either the completion and tagging of the equipment or the end of the award.
4. The fabricated equipment will retain its identity as a separate item and will not be a component of another item.
5. The fabrication is not a deliverable to the sponsor.
6. Title of the entire fabrication vests with UNM upon completion, and no portion of the fabrication can be transferred to an outside organization.
7. The fabricated equipment must be placed into service in ample time to directly benefit the funding project per the statement of work.

## Characteristics of Fabricated Equipment

- Unique, specialized equipment
- Not commercially available

### Unallowable Costs

- Cannibalized parts (parts removed from an existing asset that has already been recorded, capitalized, and fully depreciated)
- Standard items that are altered or customized to make them usable on a project do not qualify as fabrications
- Maintenance contracts (other than first year or if not in place at the time the asset is initially put into use) and extended warranties
- Modification costs of existing (fabricated) Equipment (if not adding new functionality and extending the life of the asset). Purpose or use must be the same as original asset.
- Modification costs of fabricated equipment (if after initial use or deployment for research)
- Repair and Maintenance
- Replacement parts
- Replacement supplies
- Research and Development (R&D)
- Consumables or supplies (that do not become a part of the final equipment, e.g. books, tools, paper towels, test equipment, etc.)
- Spare parts

# Procedure

## Department

UNM departments must complete and submit a 'Request for a Fabrication Control Number' once it is determined that they will be fabricating an asset meeting the previously mentioned criteria. The form is found on the Inventory Control website: http://inventory.unm.edu/. Once the form is received and approved by all appropriate offices, Inventory Control will issue a Fabrication Control Number (FAB#). The FAB# must be referenced for all charges related to the project. Request should also include the research proposal documentation and budget. If fabrication is not in the proposal then include the documents for the required equipment. A timeline to fabricate the equipment should also be submitted as well as a description of the final equipment capabilities.

## Inventory Control

Charges will be allocated to account 9060 which will serve as a "holding account" to capture activity/charges that are posted to the operating ledger throughout the fiscal year as the equipment is being fabricated. Inventory Control closely manages the 9060 account code to ensure that all transactions allocated to the 9060 account code have a Fabrication Control Number. As charges are made, the department must identify the assigned fabrication control number in the documentation before the transaction is approved. Types of Postings to Account Code 9060 by Department:

1. Purchase Requisitions
2. PCard Allocation
3. Journal Entry

Once all charges have been captured in 9060 and the item is completed and is in use as intended, the department will notify Inventory Control who will then process a JV entry to move the charges out of account 9060 as follows:

- 9000 for capital equipment (general)
- 9020 for capital computer equipment
- 9040 for equipment to be titled to a government agency

When the JV entry posts, an asset tag will be issued for the equipment. After the project is complete and the asset tag is issued, any appropriate and approved future "add-on" components must be allocated to account 9000, 9020, or 9040 as stated above in the Criteria section, not 9060. The asset tag number must be referenced for these charges, not the FAB# since the FAB is considered complete.

## Year-end

For any fabrication project(s) not complete at fiscal year-end:

1. If item is still under fabrication at year end, then costs will be treated as Pre-Paid Fabricated Equipment Asset
   - This is under the assumption that item will meet the 6 capitalization criteria in the new upcoming fiscal year.
2. If item is still under fabrication at year end and will NOT meet the 6 capitalization criteria in new upcoming fiscal year, then a re-class JV entry will be done moving charges out of 9060 to more appropriate expense acct. code (e.g. 3150, 3180, etc.)

## Add-on Components

Note: <u>Adding new functionality involves something other than expanding on existing functionality.</u> This involves a substantial change or increase in the functionality of the equipment, which allows it to function or perform tasks that it was previously incapable of performing and extends the useful life of the asset.

Add-on components are considered appropriate capitalized costs only if they meet ALL of the following criteria:

1. Cost of component, regardless of acquisition method, must be greater than $500*
2. Item must be permanently and intrinsically attached to the original fabricated asset
3. Item must extend useful life of asset by more than 1 year
4. Item causes asset to perform a function it was unable to perform originally
5. Item is used by the University upon completion for research to meet scope of work for award

*The $500 threshold is based upon 10% of State and Federal Law capitalization criteria of $5,000.00 for capital equipment.

**Below are examples of inappropriate add-on costs:**

- Would not pass audit inspection or scrutiny from an objective outside observer based on the appropriate capitalized costs criteria listed above
- Asset is impaired. Impairment of an asset occurs when there is a sudden decline in usability of a fixed asset. The impairment could be triggered by such issues as asset damage, obsolescence, or legal restrictions on asset use. The accounting for asset

impairment is to write off the difference between the fair market value and the recorded value of the asset.

- If it is not clearly identifiable or there is doubt then the rule of conservatism will apply and charge(s) will be expensed
- Requests by departments writing up old assets (e.g. 10 years or older) or assets that have zero depreciation periods, will be scrutinized for:
  - Is the asset for the proposed write up tagged and can it be located?
  - Does the asset for the proposed write-up need to be written off (disposed)?
  - Is this indeed a write-up to an old, fully depreciated asset or do new tag(s) need to be issued instead and depreciated over a more valid useful life?