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 establishing and utilizing work-in progress (SPWIP sub-fund or WIP) accounts for 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. Work-in progress accounts accumulate costs and, upon completion of the fabrication, transfer those costs to the account that the finished product will reside in and apply the appropriate capital or non-capital object code.

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 (Work in Progress: Fabrication of Equipment, Models/Prototypes, and Deliverables) regarding fabrication of equipment, models/prototypes, & 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. **Fabrication Completion Date:** When a fabrication is determined to be ready for use or testing (this is not the same as the project end date). The fabrication completion date should allow ample time for the equipment to be utilized on the project prior to the project end date.

   F. **Hosting Arrangement:** In connections with licensing of software products, an arrangement in which an end user of the software does not take possession of the software; rather the software application resides on the vendor's or third party's hardware, and the customer accesses and uses the software on an as-needed basis over the internet or via a dedicated line. Some hosting arrangements examples are software-as-a-service (SaaS), platform-as-a-service (PaaS), and infrastructure as-a-service (IaaS).

G. 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.

H. 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, mineral rights, timber rights, copyrights, patents, trademarks, and computer software. Copyrights are included as examples of internally generated intangible assets in GASB Statement No. 51, Paragraph 45.

I. 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.

J. 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 should also be considered internally generated software. 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.

K. 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).

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

M. Right to Take Possession Without Significant Penalty: "Without significant penalty" contains two distinct concepts: The ability to take delivery of the software without incurring significant cost: and the ability to use the software separately without significant diminution in utility or value.

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

O. Software Acquired, Modified, Developed Solely to Meet Colorado State University's (CSU's) Internal Needs: Software is considered acquired, modified, or developed solely to meet CSU's needs unless one of the following scenarios occurs: During the software's development or modification, a substantive plan exists or is being developed to market the software externally; software to be sold, leased, or otherwise marketed as a separate product or part of a product or process; software to be used in research and development; and software developed for others under contractual arrangement.

P. 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.

Q. 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.

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

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

T. Subscription-Based IT Arrangement (SBITA): A contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in exchange or exchange-like transaction.

U. Upgrade: Raising to a higher standard, in particular improve an asset by either adding or replacing components.

6. <u>Procedure Statement</u>: 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. Software acquired will be distributed in accordance with the terms and conditions in any license agreement accompanying a particular software product, therefore, Colorado State University must not permit giving any software to or receiving any software from clients, contractors, customers, and others that violates stated terms and conditions within the license agreement. The university's Kuali Financial System (KFS) allows for the tracking of accumulated costs incurred during a fabrication to a work-in-progress account. Sponsored Project Work-in-Progress (SPWIP sub-fund) and Work-in-Progress (WIP) accounts are Project-To-Date accounts, which means you can track revenues and expenses across multiple years.

A. Capitalization Thresholds: Refer to FPI 4-12 (Intangible Assets and Internally Generated Intangible Assets) regarding intangible asset thresholds.

Software - purchased	$10,000*
Software – internally developed	$50,000

*The current Colorado State University capitalization threshold is $10,000 or as stated above, which is different than the current threshold for sponsor (53) funds which is set at $5,000 (or other threshold if set by a contract, grant, or agreement).

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 equal to or greater than the capitalization threshold. 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, and/or data conversion incidental to the use of the software (i.e. Historical information) should be expensed.

1. **Licenses:** CSU shall not capitalize annual software license agreements to continue to use the software unless they meet the Subscription-Based IT Arrangement (SBITA).
   a. Software licenses 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. SBITA; if the license meets the SBITA criteria, it will be capitalized as such. It must be a multi-year license agreement/contract (greater than 12 months) with a total liability of $50,000 or more and convey the right to use an underlying IT asset with control on how the asset is used.

2. **Maintenance Fees**: CSU shall not capitalize annual maintenance fees incurred to use or maintain software.

3. **Service Contracts:** CSU shall not capitalize multi-year service contracts.

   a. 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 ≥ $50,000:** Internally Developed Software is 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 should also be considered internally generated software. 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. 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.

   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 Work-in-Progress (SPWIP sub-fund [88] or WIP [89] Accounts):
When a department has identified the need to capture costs for fabricating internally developed software, a work-in-progress (SPWIP sub-fund or WIP) account must be set up. The funding source of a SPWIP sub-fund account is a sponsored project fund (53) account and will be administered by Sponsored Programs. The funding source of a WIP account is any other university fund account and will be administered by the Cost Accountant in Business and Financial Services. Departments will need to submit a request to set up a work-in-progress account.

1. For all sponsored project fund (53) accounts, a Work-in-Progress (WIP) Account Request Form should be completed and submitted to Sponsored Programs in order for them to set up an 88 SPWIP sub-fund account. The Financial Research Accountant will handle prorating for 88 SPWIP sub-fund accounts.

2. For WIP accounts not on sponsored project funds, an 89 Account Create document should be submitted to the Cost Accountant in Business and Financial Services. The fabrication's start and end date, estimated budget, and funding account need to be provided. Once approved, the department can set up a subaccount if multiple projects are on the same funding account. The Business and Financial Services Accountant will handle prorating for 89 WIP accounts.

Fabrications that meet capital criteria will prorate to 1823 Equipment in Progress. If the asset does not meet capital criteria or is considered a deliverable, the costs will not be prorating to 1823 and the costs will be moved to an appropriate expense object code. Monthly AJV entries (by either the Office of Sponsored Programs or the Cost Accountant in Business and Financial Services) will be created that will book the expenses to 1823. For 89 WIP accounts the expenses will be moved to 7720000-1823 and offset the expenses that occur in the 89 WIP account.
Upon completion of the fabrication, the accumulated costs are transferred from the SPWIP sub-fund or WIP account to the account where the expenses for creating the finished product will reside, and the appropriate capital or expense object code will need to be applied.
For all completed SPWIP sub-fund (53 fund) fabrications, upon request from the department, OSP will provide the accumulated amount to the department. For capital SPWIP sub-fund fabrications, the department will submit a Kuali Distribution of Income and Expense (DI) document to move the final cost from 53xxxxx-6xxx to 53xxxxx-8xxx to create the capital asset. Capital equipment fabrications using sponsored project funds (53) are exempt from F&A charges. For non-capital SPWIP sub-fund fabrications or deliverables, the department will need to submit a Kuali Distribution of Income and Expense (DI document to move the final cost from 53xxxxx-6xxx to the appropriate expense object code and the fabrication will be subject to F&A costs.
For all completed WIP (any other university fund account) capital fabrications, the Cost Accountant in Business and Financial Services will move the accumulated expenses in 1823 to the appropriate 8xxx asset object code using a Kuali Distribution of Income and Expense (DI) document. This will also generate the 18xx financial object code for the asset. This generates the capitalization entry and creates the asset record, so depreciation can begin.

3. Costs. There are restrictions on the costs that can and cannot be charged to a SPWIP sub-fund account or WIP.
Allowable direct costs can be charged to the SPWIP sub-fund or WIP.
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

Unallowable costs should be recorded in the funding or source account.

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

4. Stages. The activities within the three stages of development may occur in different sequences. 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.

Cease capitalizing when software is substantially complete and operational (i.e., ready for use). 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. Property Management Office will process the DI to create the asset and assign and affix a decal to the final product.

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

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

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 screenshot 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. Reference and Cross-References:

Governmental Accounting Standards Board (GASB) (Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities the use Proprietary Fund Accounting); (Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments); (Statement No. 42, Accounting and Financial Reporting for Capital Assets and for Insurance Recoveries); (Statement No. 51. Accounting and Financial Reporting for Intangible Assets); (Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements [Issued 12/10]); (Statement No. 87, Leases); and (Statement No. 96, Subscription-Based Information Technology Arrangements) home Page: http://www.gasb.org

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

Office of the State Controller Fiscal Rules and Procedures Manual is located at: https://www.colorado.gov/pacific/osc/fiscalprocedures

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

8. Forms and Tools:

Business and Financial Services Guides and Manuals are located at: http://busfin.colostate.edu/Resources/Guides_Manuals.aspx

Capital Asset Management (CAM) Financial Documents Training (Completing Capital Asset Requisitions, General Ledger Transfer [GLT] documents, and Distribution of Income [DI] documents) is located at: http://busfin.colostate.edu/Depts/PropMgt.aspx (Under the Training heading)

Kuali Financial System (KFS) User's Manual is located at:

http://busfin.colostate.edu/Resources/Guides_Manuals.aspx (Under the Manuals heading)

Office of Sponsored Programs (OSP) (Work-in-Progress (WIP) Account Request form is 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)

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