**Financial Management of Property, Plant and Equipment - Appendix E**

**Detailed Guidance on Funding Procedures**

**Basic rules for funding:**

Acquisitions of facilities and equipment can be either debt-financed or internally funded (e.g., from donor funds, sponsored funds or unrestricted funds). The Capital Project Services (CAPS) office administers all capital projects, whether debt-financed or internally funded. The accounting for the funding of acquisitions differs depending on how the item is funded and whether it is constructed or purchased; for debt-financed projects, tubs must contact the Office of Treasury Management (OTM) and complete a loan application.

**Buildings:**

The CAPS Office administers all capital projects and requires tubs to complete and submit the following forms: the Project Proposal (PP), the Construction Authorization (CA), the Construction Close-Out Request (CCR) and, for debt-financed capital projects, the loan application.  All forms are available through the [CAPS website](http://capitalprojectservices.harvard.edu). After the tub submits each form is, it is routed through CAPS automated workflow for appropriate approvals.  The final approved form is then routed to Financial Accounting and Reporting (FAR), which records the required accounting entries.

**Process for Internally-Funded Capital Projects:**

* Tubs complete the **Project Proposal (PP) form** and forward it to CAPS for approval. The tub selects a new CIP activity from its available range of CIP activity numbers and includes it on the PP.  Based on the completed and approved **PP form**, FAR transfers the amount designated as development funds on this form to the new Construction in Progress (CIP) activity.
	+ For projects under $5 million, development funds are typically up to 20% of the project’s total costs and are intended to cover initial planning and pre-construction expenditures
	+ For projects of $5 million and more, there are always at least two transfers for development funds:
		- First, an initial PP for up to the lesser of 4% of total project costs or $1,000,000 for initial funding of a feasibility study
		- After the initial PP, a revised PP for up to 20% of total project costs for full design funding
* Tubs must submit the **Construction Authorization (CA)** form to CAPS after planning and development have ended, but before beginning construction or making construction-related financial commitments (such as an executed construction contract).  FAR transfers the funding to the CIP activity as directed by the CA. Tubs may submit CAs for partial funding, however, partially funded projects will require a final full CA to completely fund the project.
* At each month-end close, a computer-generated allocation entry reclassifies any overfunding (i.e., funds in CIP plant equity in excess of costs incurred to date on the project) from CIP plant equity to fund 726110, “Balances Designated for CIP.”  This reclassification ensures that the balance in CIP plant equity represents only actual investments to date in CIP.  The entry is reversed at the opening of the subsequent month.  This process is repeated until the project’s close.
* Once the project is complete (as defined in the Facilities and Equipment Accounting Policy), tubs must submit the **Construction Close-Out Request (CCR)** form to CAPS, which then forwards the form to FAR.  FAR then transfers all CIP costs to placed in service (PIS), processes the final entry to close out CIP overfunding or underfunding, as appropriate, and disables the CIP activity number.  (See the “Overfunded/underfunded capital projects” section of this document.)

**Process for Debt-Financed Capital Projects:**

* Tubs complete the **Project Proposal (PP) form** and forward it to CAPS for approval. The tub selects a new CIP activity from its available range of CIP activity numbers and includes it on the PP.  Based on the completed and approved PP, FAR enables the new project’s CIP activity and assigns attributes to the new activity number (e.g., the interest rate, type of debt and other debt terms). There are no accounting entries recorded at this stage for development funds.
* Tubs complete the Construction Authorization (CA) form after planning and development have concluded, but before construction begins. FAR records no journal entries at this stage.
* At each month-end close, the loan is adjusted for the amount of spending incurred to date and interest is charged via monthly computer-generated allocation entries. The loan funding entry is reversed at the opening of the subsequent month. This process is repeated until the project’s close.
* Interest is charged on the amount borrowed each month and is capitalized to the cost of the asset while the project is ongoing through the use of object code 1590, “CIP Interest.”
* Once the project is complete (as defined in the Facilities and Equipment Accounting Policy), tubs must complete the **Construction Close-Out Request (CCR)** form to CAPS, which then forwards the form to FAR. FAR transfers the CIP costs to PIS and records the internal loan liability for the total amount of spending incurred.

When requesting a loan term for a componentized building, tubs should ensure that the loan term does not exceed the weighted average useful life of all components in the project, especially as related to lab projects. The default loan term should not be used if it is not appropriate relative to the asset. Tubs will need to calculate the weighted average loan term based on spending in the relevant categories (shell, roof, finishes, fixed equipment, and services) instead of using the 19 year default if there is not spending in all 5 categories or if spending in longer-lived components is significantly less than spending in shorter-lived components. See [OTM’s website](http://otm.finance.harvard.edu/pages/debt-financing) for helpful information, including a [Loan Term Calculator template](http://hwpi.harvard.edu/os_fast/files/otm/loan_term_calculator.xlsx).

**Equipment:**

CAPS does not administer equipment purchases or fabrications unless they are integrated into a capital (i.e., building) project as Moveable Furnishings and Equipment (MFE). Equipment purchases or fabrications may also be either debt-financed or internally funded (with sponsored or unrestricted funds).

**Overfunded/underfunded capital projects (internally funded):**

It is the responsibility of each tub to monitor the spending and funding status of its capital projects. Interest income/expense on overfunded/underfunded projects is credited or charged, respectively, to the project via monthly system generated allocation journal entries.

* Overfunded projects: Since funding is transferred up-front for capital projects, each project is in a net credit position (i.e., funds available are greater than costs incurred to date on the project) as construction is in progress. Interest is earned on these positive fund balances and credited to object code 4530, “Interest Income, GOA, Tub Net Assets, GENERAL.” At the project’s close, any interest income earned during the course of the project is first considered a project funding source. After all project costs have been covered, any remaining funds such as interest earned or funding surpluses are returned to a fund of the tub’s choosing, as indicated by the tub on the Construction Close-Out Request. For donor funds, the use of any remaining funding surpluses must comply with donor terms.
* Underfunded projects:Projects that are in a deficit position (i.e., total spending on the project exceeds available funding) are charged interest on the deficit fund balances. The interest expense is capitalized to the cost of the asset while the project is ongoing through the use of object code 1590, “CIP Interest.” Once the project is closed, the Construction Close-Out Request must indicate what funding source is to be charged for the remaining project balance.

**Shared capital projects:**

Some capital projects are funded by more than one tub (e.g., if two tubs split the cost of a building). In such cases, the tubs must agree prior to the start of the project which tub will have the asset on its balance sheet (the owning tub) and which tub will fund the project but will NOT have the asset on its balance sheet (the supporting tub). Assets cannot be split between tub balance sheets. If the project is debt-financed, the loan follows the asset and will be recorded on the owning tub’s balance sheet along with the asset. The plant equity also follows the asset and is recorded on the owning tub’s balance sheet. If the supporting tub is debt-financing the project, an intertub loan is recorded in object code 3062, “CO^INTERTUB debt obligation, PIS, Other.” As a result, the loan is appropriately reflected on the supporting tub’s balance sheet. OTM records the loan and intertub debt obligation.

**Capital projects with sponsored funding:**

Rarely, tubs may receive sponsored funding for a capital project. Due to the complex process required to properly capture and report these costs, tubs must notify FAR and OSP as soon as possible. Accounting for these projects requires manual adjustments between Oracle Fixed Assets and the sponsored award.

**Intertub leasehold/tenant improvements:**

In the case of leasehold/tenant improvements where one tub owns the underlying asset (the building) and another tub is paying for improvements to the space, the assets are recorded on the balance sheet of the tub paying for the improvements, through the use of object code 1240, “Capital Leasehold Improvements.” The tub paying for the improvements must also open the CIP activity in their range of values. For example, if FAS is paying for leasehold/tenant improvements in a building that is owned by HRES, these improvements would be recorded on the FAS balance sheet as Capital Leasehold Improvements, and FAS would select the activity from their range of CIP activities.

**Interim funding changes:**

If the funding source changes over the course of a capital project, tubs must submit a revised Project Proposal or Construction Authorization form through the CAPS system. FAR will make the necessary funding transfers and revisions as indicated on the revised PP or CA. If the project is debt-financed and changes are made to the amount of borrowing, tubs must submit a revised loan application to OTM for approval.

**Post-close funding and projects expecting future gifts:**

Capital projects can only be funded with actual gift receipts; pledges cannot be used to fund capital projects. Pledge payments received after a construction project is closed may in some cases be applied to an outstanding loan balance with the approval of both OTM and the Recording Secretary’s Office (RSO). If tax-exempt debt has been used to fund the acquisition/project, additional complexity exists in replacing the debt, and changing the funding source may not be feasible. Pledge payments received after a funded project is closed may be credited to the fund that was charged for the project with RSO approval. Tubs are responsible for monitoring bridge funding and for making the accounting entries needed to repay funds that provided initial funding.