Responsible Office: Financial Accounting and Reporting
Date First Effective: 02/15/2007
Revision Date: 01/01/2022
http://policies.fad.harvard.edu

Financial Management of Property, Plant and Equipment

Policy Statement

The University requires that amounts expended for facilities and equipment (in excess of certain thresholds and whether purchased, constructed, or leased) be capitalized, and depreciated. Capitalized amounts should be periodically inventoried for impairment or possible write-off in accordance with Generally Accepted Accounting Principles (GAAP) and regulatory requirements.

This policy provides guidance for the management and control of capital equipment that is owned by the University, titled to the University, under the custody of the University, or for which the University is accountable to the federal government or other sponsors.

If direction differs between this policy and external regulations, sponsor or donor terms, or other internal policy or procedures, the more restrictive instruction will apply.

Reason for Policy

This policy exists to ensure adherence with Generally Accepted Accounting Principles (GAAP) and other regulatory requirements, to promote consistent accounting treatment across the University, and to ensure the operating results of University units are not misstated as a result of transactions unrecorded or recorded improperly.

Who Must Comply

All Harvard University schools, school or units, local and central units, affiliated institutions, allied institutions, and University-wide Initiatives (collectively, "schools and units") must comply.

Procedures

I. **Oracle Fixed Assets is the System of Record for Property, Plant and Equipment.** All Harvard schools and units must input and maintain Property, Plant and Equipment (PPE) assets in Oracle Fixed Assets. Equipment may be fixed or movable and may include, but is not limited to, IT equipment, furniture, software, etc. which may be leased or owned.

II. **Follow Harvard's General Rules for Capitalization**

   A. Only capitalize expenditures that meet **all three** of the criteria listed below, otherwise expense the amount in the year incurred:
      1. The item must be acquired for use in operations, and not for investment or sale, AND
      2. The item must have a useful life of one year or more, AND
      3. The amount must meet the following materiality thresholds: generally, $100,000 in project costs for land, buildings, land and building improvements, and fixed equipment (excluding any movable furnishings and equipment [MFE] costs), or $5,000 per unit for movable furnishings, equipment (MFE), or $5,000 for improvements and upgrades to existing capitalized equipment. See Appendix B for further details.

   B. Lease agreements – Certain lease agreements may qualify for capitalization. See Accounting for Leases Policy for additional information.

   C. Leasehold improvements – The same procedures for determining whether renovations can be capitalized or expensed apply to improvements made by a University school or unit to property not owned by that school or unit. Generally, improvements made to leased premises are capitalized if they meet the above criteria and qualify as alterations, renovations, renewals, or replacements. These leasehold improvements are depreciated over the shorter of the life of the asset or external lease plus extensions (see Appendix B).

D. When building or fabricating assets, acquiring land, land improvements, buildings or equipment, all significant expenditures that are necessary to obtain and prepare the asset for its intended use are generally capitalized. In addition, costs such as freight, insurance, installation, and assembly are capitalizable. The capitalization guidelines differ for each type of asset (see Appendix B).

E. Repair and maintenance expenses associated with recurring work required to preserve or immediately restore a facility or a piece of equipment to such condition that it can be effectively used for its designated purposes should be expensed as incurred. For additional guidance, see the "Repairs and Maintenance" section of Appendix B.

F. Works of art, collections, and books:
   1. Items purchased as part of a collection or held for exhibit should be expensed and not recorded as a capital asset. In accordance with FASB guidelines, Harvard does not capitalize its collections, including works of art, historical treasures, and books.
   2. Works of art that are purchased for the sole purpose of furnishing an office should follow the policies for purchasing office furniture and fixtures. Purchases under $5,000 should be expensed and those over $5,000 should be capitalized.

III. Follow Specific Rules for Capitalizing Equipment – See Appendix B for additional guidance

A. Costs for assets are accumulated through accounts payable transactions (Buy-to-Pay [B2P], Concur and WIP for Corporate Card) or internal billing charges. PCard may not be used for purchased equipment, furnishing, software or vehicles. Schools or units may have more restrictive policies, contact your Equipment or Finance Office for additional guidance.

   Note: When using federal funds, areas must follow the Uniform Guidance requirements regarding avoiding unnecessary and duplicative purchases and contractor selection justification. See the Procurement Policy for additional guidelines.

B. Code moveable equipment, furnishings, software, and vehicles costing $5,000 or more to object codes 6800-6869. Individual items (that are not part of multi-component equipment) costing less than $5,000, even if the total purchase exceeds $5,000, should not be capitalized but expensed as incurred; use object codes 6710-6789 to capture these acquisitions. See the Software Policy for further guidance on the capitalization of software licenses and datasets. Local policies may require tracking of equipment below the capitalization threshold; contact your school or unit financial office or equipment manager for further guidance.

C. Multicomponent equipment is comprised of individual components of commercially-available equipment or materials **purchased together** that are assembled to operate as a system (e.g., a microscope, camera, laser, optics, etc.). Component parts of one piece of equipment must be accumulated and capitalized if, **at the time of requisition**, the cost is $5,000 or more. Component pieces can be purchased from one or more vendors. In addition, costs such as freight, insurance, installation, and assembly are capitalizable. See "Equipment" in Appendix B for additional information.

D. Fabrications consist of non-expendable, tangible property, physically constructed by Harvard personnel. Fabrications have aggregate capitalizable costs of $5,000 or more, have an expected completion date, and a useful life of one year or more. Fabrications are made up of parts and materials combined or manufactured to work together as an identifiable unit and are not simply a multicomponent assembly of separate items. Fabrications created for delivery to a third-party should be treated as inventory. Fabrications are excluded from indirect costs and are capitalized and depreciated as an asset of the University once placed in service. (See Appendix B and Appendix F.)

E. Aggregate fabrication costs for constructed equipment (Work in Progress - WIP) by project using object codes 6811 and 6812. Once completed, areas must place the assets into service (PIS) by working with their school or unit Central Equipment Manager or school or unit Finance Office, who will work with Financial Accounting and Reporting (FAR). See “Fabrications - Work in Progress (WIP)” in Appendix B for additional information.

F. Improvements and enhancements (also known as betterments) to existing capitalized equipment must meet the criteria listed in section II.A.3. It is added as a new “child” asset to the original capitalized equipment. (See Appendix B)

G. Title transfers: Contact Financial Accounting and Reporting (FAR) for accounting guidance when title to equipment is transferred to Harvard (e.g., an incoming faculty member or a donation) or between Harvard school or unit.

H. Equipment for which Harvard does not hold title (see Table in Appendix A):
   1. Government-titled equipment and government-furnished property: under some sponsored awards, the government keeps the title to certain equipment. In cases where the government furnishes the equipment at no cost, Harvard does not own the equipment but must still record it for tracking purposes, and the assets should be recorded in Oracle Fixed Assets at zero value. Additional procedures apply in such cases; see Appendix A for more information.
   2. Faculty transfers: occasionally, an incoming faculty member brings equipment to Harvard but does not transfer title to the equipment to Harvard. In these cases, Harvard does not own the equipment but must still record it for tracking purposes, and the assets should be recorded in Oracle Fixed Assets at a net book value of zero. Refer to Appendix B for more information.
   3. Leased equipment, please see the policy on Accounting for Leases.
   4. Equipment on loan to Harvard must be recorded for tracking purposes. The assets should be recorded in Oracle Fixed Assets at zero value

I. Equipment Assets Placed in Service (PIS)
   An equipment fabrication project must be placed in service when:
   1. the asset has been sufficiently developed and is generating the intended useful results AND
   2. the aggregate project costs meet the capitalization threshold.

   Complete the Notification to Place in Service Work in Progress form and submit it to FAR_Fixed_Assets@harvard.edu.

   School or Units must review all their equipment Work in Progress (WIP) every 6 months to determine if they should be placed into service, written off or documented as to the reason the project should remain open. This review must be aligned so as to ensure one of the bi-annual reviews is done close to year end (i.e., as of May or June). Exceptions for inactive fabrications remaining open should be rare. For any school/unit/area with Sponsored WIP, refer to Appendix A for additional review requirements related to WIP on awards that are closing in the next 6 months.

   For non-debt financed WIP, the school and units must notify FAR when projects are ready to be placed into service. For debt financed WIP, the school and units must notify both FAR and the Office of Treasury Management (OTM) when projects are ready to be placed into service. For additional guidance, see the Equipment Work in Progress section of Appendix B.

IV. Specific Rules for Capitalizing Buildings, Land, and Improvements

A. Capitalizing building, land and improvement projects requires a formal project proposal (PP), construction authorization (CA) and construction close request (CCR) which are completed through the CAPS automated system. See Capital Project Services (CAPS) for details.

B. Placing in Service (PIS): If any one of the following conditions is met, a building project is considered complete and must be placed in service (PIS) and the project fully or partially closed:
   1. A Certificate of Occupancy (CO) or Temporary Certificate of Occupancy (TCO) if the use of the asset commences as of the TCO date, has been issued,
   2. If a CO or TCO is not necessary for the project, a Certificate of Substantial Completion has been received from the contractor, or municipal sign-offs on construction permits have been received that allow use of the space/asset.

C. Closing a Project: When a project is complete, schools and units process a Construction Close Request (CCR) through the CAPS system. The CAPS system notifies FAR to ensure the full costs of the assets are placed into service. All of the costs aggregated in the CIP object codes are placed in service (PIS) either as a Facility Buildings PIS or Movable Furnishings & Equipment (MFE). The Placed in Service date is based on the CO, TCO or permit signoff date. If no certificate permit signoff is needed, FAR suggests the school or unit use the date that approximates when the property was put in use or the date of the last posted purchase.

D. Soft or Partial Close: A soft or partial close is required if a project is expected to incur additional costs, and the project meets the following criteria:
   1. the project meets the criteria listed under Section IV.B. above, and
   2. the project has incurred capital costs, **excluding** MFE, of greater than $1,000,000 for large schools or units (FAS, HMS, HBS, SPH) or $500,000 for small schools or units (all other school or units).

   If a partial close is required per the above, the request should be submitted within two months of the issuance of the Certificate of Occupancy (whether permanent or temporary), the permit signoff, or other events triggering the partial close.

   Schools or units submit a partial close request through the CAPS system on the Construction Authorization (CA) form. The placed in service date is determined based on the CO permit signoff date. If no certificate or permit signoff is needed, FAR and the CAPS office will work with the School or unit to determine the appropriate date to use. The date that approximates when the property was put in use or the date of the last posted purchase may be suggested.

   When a partial close is processed, all non-MFE costs incurred to date are placed in service. MFE is not placed in service until the final close. If a project is debt-funded, debt will be issued, and debt service will begin. Depreciation back to the placed in service date is calculated and recorded in the month that FAR records the partial close. Harvard uses a full-month convention for depreciation, and thus a full month of depreciation is taken for the month that the project was partially closed.

   The CIP activity will remain open, and costs will continue to be charged to the CIP object codes until the project is 100% complete. Upon final completion of the project and submission of the CCR, the additional costs incurred since the partial close are placed in service, and the activity is closed (final close). All the MFE costs will be placed in service at the time of the final close. The loan for debt-funded projects is adjusted to the final amount. Any excess funding on equity-funded projects is returned to the School or unit funding the project. The placed in service date for these additional costs will be the date used in the partial close, and the depreciation adjustment on the final costs will be recorded in the month the final close is completed.

E. Phased projects: Phased projects are projects that have separate and distinct phases that are independent of one another, (i.e., one phase can be placed in service before other phases begin or end). In phased projects, each phase can have a separate placed in service date. In order to have separate and distinct placed in service dates, separate CIP activities must be established for each phase. (Each CIP activity can only have one placed in service date.) Once completed phases are placed into service, depreciation and debt service begin on those respective phases.

F. Final Closes: Once the CCR is submitted and approved, FAR capitalizes the full capital costs of the project and the CIP activity is closed. No additional spending can be charged to the project, and any remaining costs are expensed as incurred. Depreciation starts in the month the asset is placed in service and the Oracle system will record any catch-up depreciation back to the appropriate month. Debt service begins the month the close or partial close was recorded (e.g., if a project close is recorded in February 2017 with a PIS date of November 2017, the debt service begins in February). It is important to note that the placed in service date should be reviewed for accuracy and that this is necessary for budget/forecasting purposes.

G. Depreciation Method: Harvard begins depreciation in the month the asset was purchased *and* placed into service OR the date a project (CIP or WIP) is closed (full or partial) *and* placed into service. A full month of depreciation will be recorded in the first month. Depreciation is recorded each month as a part of the month end close process.

Harvard suggests the use of standard useful lives, which are detailed in Appendix C. Different lives, where applicable, can be used if justified by the facts and circumstances and approved by FAR. Schools and units may record depreciation expense to the school or unit-level org, to department orgs, or a combination of the two.

V. Inventory and Asset Management

A. Buildings, land, improvements, fixed equipment, and leasehold improvements: Per University Internal Controls, schools and units must show documentation review of asset impairment or retirement for land, buildings, and leasehold improvements on an annual basis. See Property, Plant and Equipment Internal Controls matrix.

B. Refer to disposals, dispositions, and impairments covered in Appendix D.

C. Individual MFE equipment assets costing over $25,000 that are purchased as part of a capital project require special treatment. Equipment managers or other school personal are required to identify these assets and create a separate asset in Oracle Fixed Assets for the purposes of tracking and inventory.

D. Moveable Equipment:
   1. Identification of Equipment
      Oracle Fixed Assets is Harvard's system of record for all property, plant, and equipment assets. Areas must ensure all asset information is entered into Oracle Fixed Assets and kept current. Upon placement in service of capital equipment, areas must maintain records that include a description of the equipment, a serial number or other unique identification number, the source of funding, who holds title, the acquisition date and cost, the location, use and condition status, and any ultimate disposition data. Equipment records must be maintained and updated to allow on-campus and off-campus equipment to be located within thirty days. Off-campus locations are facilities not owned or rented by Harvard or to which facilities costs are not directly charged. (See Definitions in Appendix G.)

2. Tagging Equipment
In order to maintain effective equipment identification, areas must affix a unique identification tag to capital equipment. These tags facilitate the area's equipment inventory control by enabling individuals to match pieces of equipment to their associated information, as required by federal regulations. In cases where items cannot be physically tagged (e.g., too small, temperature-sensitive), or in cases where the tag would interfere with use or operation, schools and units must complete and upload into Oracle Assets a Untaggable Asset Form or similar documentation. All equipment that is the property of the federal government, whether Government Titled Equipment, Government Furnished Property, or conditionally-titled, must be tagged with an additional tag identifying it as government property. Refer to Appendix A for additional information on these classifications.

3. Inventory Control
A full physical inventory of all equipment purchased after 6/30/14 with an original cost of $25,000 or more is required every two years. The purpose of the inventory is to verify both the accuracy of equipment records and the existence and current use of equipment (whether purchased, fabricated, or furnished). Inventory records must contain information necessary to identify the equipment including equipment description, serial number, acquisition information and location. It is the responsibility of the schools and units to perform the required inventories and maintain all inventory and equipment records. See Fixed Assets - Physical Inventory Process Job Aids for instructions regarding completing a physical inventory.

Please note that areas with federally-sponsored research MUST perform a full physical inventory of all equipment with an original purchase price of $5,000 or more every two years to be in compliance with federal regulations. See Appendix A.

Physical Inventory Required	Original Price	Required by
Due by June 30 every 2 years FY23 FY25 FY27, etc.	≥ $25,000	All schools, areas, or units
Due by June 30 every 2 years FY23 FY25 FY27, etc.	≥ $5,000	All schools, areas, or units with federally-sponsored research must perform inventory on all equipment
Inventory schedule was reset due to COVID.		

E. Movement of Equipment
Equipment that will be moved from its recorded location for a period longer than thirty days must be registered with the area/school/unit-level equipment manager for updating in Oracle Fixed Assets. Additionally, if equipment is moving to an off-campus location for more than thirty days (e.g., a collaborating institution or a field research site) an Offsite Equipment Notification Form must be submitted to the area equipment manager.

Upon receipt of capital equipment, schools must track the location of equipment at on-campus or off-campus sites. Schools must maintain records of equipment that allow it to be located in a reasonable amount of time (i.e., thirty days). A picture of the equipment and its tag from the off-campus responsible official can serve as a confirmation of the existence and location for off-campus equipment.

Special note: The movement of government-titled property must be registered with the area-level *equipment manager using an Offsite Equipment Notification Form regardless of the duration of removal from its recorded location.*

Special note: The movement of Harvard equipment to international locations is subject to export controls. Please contact the area equipment manager and the area's Export Control Officer or school or unit finance office.

VI. Correcting General Ledger Coding: Schools and units must use the electronic AP Adjustment Form to change the general ledger coding for an asset unless the transaction was recorded by internal billing. Do not use the journal entry process to change general ledger coding as this breaks the audit trail in Oracle Fixed Assets. See Fixed Assets - AP Adjustments Job Aid.

VII. Account for Disposition, Retirement, and Impairment: See Appendix D
When an asset has been sold, demolished, is no longer in service, or its value has been permanently impaired, any remaining value of the asset must be written off or written down to its net realizable value. This involves removing or writing down the asset in Oracle Fixed Assets which is done by the responsible school or unit. The corresponding adjustment to accumulated depreciation and any realized loss will be recorded during the monthly Oracle Fixed Asset closing process. Additionally, when assets are sold, FAR must manually transfer any remaining plant equity to operating net assets. Any outstanding loans on debt-financed assets that are being written off must be settled. For equipment, schools or units should record disposals or impairments at time of inventory or when information about the state of equipment becomes known. For all other capital assets (buildings, land improvements, building improvements and leasehold improvements, fixed equipment, and capital leases), schools or units must recognize impairments as they become known and record them in Oracle Fixed Assets by the quarter close of the quarter identified. Schools and units are required to perform an impairment review on a quarterly basis. See the Fixed Assets Control Matrix for more information.

A. Impairment: If assets have been permanently impaired, whether by damage, neglect, obsolescence or a change in the economic landscape, such that future expected cash net of accumulated depreciation, less any salvage value flows from the assets are less than their net book value on the balance sheet, the assets must be written down to their estimated remaining value or, in some cases, written off entirely. This write-down or write-off is accounted for in the same manner described in the "Sales of assets" and "Demolition" sections of this document. For additional guidance, see Appendix D, "Detailed Guidance on Disposals and Impairments."

B. Timing of recording: Account for disposals due to sale or demolition and transfers of assets in the month of the disposal or transfer, but not later than the quarter-end.

C. Dispositions: Remove disposals from inventory items that have been written off or are no longer in use must also be revoked from inventory. Disposals of sponsored equipment are often subject to sponsor-specific disposition restrictions and cannot be disposed without prior approval; see Appendix A for more information.

D. Sales of Equipment: See Appendix D. The University does not allow the sale of sponsor-funded equipment; exceptions to this policy are rare and are reviewed by the area equipment manager, area sponsored research office, and OSP on a case-by-case basis. Sales or Unrelated Business Income Tax may apply. Contact the Tax Reporting Office for additional information.

E. Trade-ins: In some cases, a school or unit may trade-in an existing piece of equipment for a new asset. This results in the existing asset being written-off in Oracle Assets. In order to reflect the actual value for the new asset (Payment + Trade-in Value) in Oracle Assets, the school or unit must notify FAR so a journal entry can be processed to reclassify any write-off (o/c 8722) on the disposal to the newly acquired asset.

Note: Schools and units may wish to follow and use some of the processes and forms listed above for non-capitalized equipment. Regardless of original purchase price, certain types of sales may require the collection of sales tax and be subject to Unrelated Business Income Tax.

VIII. Comply with Sponsored Requirements.
Equipment purchased or fabricated with sponsored funding is often subject to additional requirements. For a summary of procedures relating to sponsored equipment, see Appendix A.

Responsibilities and Contacts

Financial deans or equivalent school or unit financial officers are responsible for ensuring that local schools and units abide by this policy and the accompanying procedures. School and unit finance offices are responsible for implementing the policy and procedures, principally by ensuring that University assets are appropriately accounted for, valued and safeguarded.

Financial Accounting and Reporting (FAR), within the Office of the Controller, is responsible for maintaining the policy, oracle assets system, and for answering questions regarding fixed assets including policy questions.

Capital Project Services (CAPS) is responsible for supporting schools and units engaged in capital spending on facilities and equipment. CAPS provides, for example, support for construction coordination, project approval, procurement initiatives and construction best practices.

Office for Sponsored Programs (OSP) is responsible for supporting University departments to ensure that sponsored funds are being used appropriately and in compliance with the sponsoring agency's rules and regulations. OSP is also responsible for responding to requests for reports and information from sponsors, auditors and other parties. OSP, on behalf of the schools, submits federal reports to the government including DoD form 1662 and NASA form 1018.

Planning Office within the Office of the Executive Vice President (EVP), enhances, sustains and optimizes the physical assets—land and buildings—of the University and provides analyses and context for decision making about the allocation of these resources in support of Harvard's academic mission

Risk Management and Audit Services (RMAS) is responsible for supporting University departments to ensure the appropriate safeguarding of University assets, integrity of financial transactions and compliance with policies, laws and regulations.

Definitions – See Appendix G

Related Resources

Accounting for Internally-Developed Software Policy
Accounting for Leases Policy
CAPS information, including forms, policies and procedures
Demolition and Remediation
Equipment Disposal Request Form
Facilities Renewal Policy
Harvard Building Interiors Policy
Internal Controls – Property, Plant and Equipment Control Matrix
Internal Transfers Policy
Untaggable Asset Form

Notification of Completion of Capital Equipment Fabrication or Debt-Financed Purchase Form
Offsite Equipment Notification Form
Oracle Fixed Assets Group and Equipment Management - Training Portal
Procurement Policy
Procurement for Construction
OSP Academic Service Centers Policy
OSP Fabrication Project Request Form
OTM website and Loan Term Calculator
Software Policy
Tax Compliance for External Revenue-Generating Activities in the U.S. (UBIT)

Revision History

01/01/2022: Update language around capitalizing salaries on sponsored awards and inventory deadlines and guidelines for off-campus equipment.

07/01/2018: Updated format and procedures (including new forms) on the following: leasehold improvements, fabrications, disposals, fixed equipment, building and land improvements, componentization, IT and AV useful lives. Appendices and definitions were also updated or added.

07/01/2014: Updated format, updated procedures for new Oracle Fixed Asset system, changed to monthly depreciation charges from annual, required schools/units inventory all assets with an original value of $25K or more every two years, recommendation to review WIP/fabrications at least every six months added, full list of federally-required equipment records added.

Appendices

Appendix A: Summary of Policy for Capital Equipment for Areas with Sponsored Research
Appendix B: Detailed Guidance on Capitalizing vs. Expensing Expenditures
Appendix C: Detailed Guidance on Depreciating Facilities and Equipment
Appendix D: Detailed Guidance on Disposals and Impairments
Appendix E: Detailed Guidance on Facilities and Equipment Funding
Appendix F: Fabrications Flowchart
Appendix G: Definitions

Appendix A: Summary of Policy for Capital Equipment in for Areas with Sponsored Research

Note: This Appendix summarizes the guidance in the Financial Management of Property, Plant and Equipment Policy that specifically relates to areas with sponsored research. The various accounting and system requirements that relate to all equipment at Harvard are found in the Financial Management of Property, Plant and Equipment Policy.

Policy Statement

Capital equipment is the property of Harvard University or a sponsor, not the faculty, department, school or unit. Capital equipment should be safeguarded and used for University programs and purposes.

This appendix, as part of the Financial Management of Property, Plant and Equipment Policy, summarizes the required treatment of capital equipment in any area that has sponsored research. If direction differs between this policy and external regulations, sponsor or donor terms, or other internal policy or procedures, the more restrictive instruction will apply.

As in the case with all expenditures, areas should confirm prior to the purchase of property, plant and equipment that it is allocable and allowable if restricted or sponsored funding is being used for the purchase.

Reason for Policy

The University receives external funding from federal and non-federal sponsors and must classify, safeguard, depreciate and retire equipment accordingly. In addition, certain sponsors may have capital equipment requirements in the terms and conditions of the award.
Federal regulations include:

- Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 CFR 200.312; 200.313; 200.436 (Uniform Guidance)
- Federal Acquisition Regulations (FAR), parts 45 and 52.245
- Defense Federal Acquisition Regulation Supplement (DFARS)
- Department of Energy Financial Management Handbook, Chapter 10

Who Must Comply

All areas must comply with the Financial Management of Property, Plant and Equipment Policy and areas with sponsored research must comply with this Appendix A. Areas are defined as all Harvard University schools, school or units, and local units, Allied Institutions and University-wide Initiatives.

Procedures

The following procedures relate to acquisition, recording, retirement, and disposition of equipment in areas with research.

I. Acquisition/Purchase

When using federal funds, areas acquisitions must meet the following:

A. Requirements from Section II of the Financial Management of Property, Plant and Equipment (PPE) Policy and any additional specific sponsor requirements.

B. Appendix B for information on the types of costs that may be capitalized as equipment versus those costs that must be expensed separately. This includes information on both equipment acquired by purchase, multi-component equipment and capitalization of lab space. Generally, Harvard labor costs which are outside of a service center cannot be capitalized on sponsored awards unless the sponsor terms and conditions explicitly state that the award must be a capital project.

C. Uniform Guidance and Procurement Policy regarding contractor selection justification requirements.

II. Fabrications – Work in Progress (WIP)

Refer to Appendix B for detailed information on Equipment Fabrications, including how to determine if your project qualifies for capitalization or if it needs to be expensed separately. See also Appendix F – Fabrications Flowchart.

Fabrications are excluded from indirect costs.

All sponsored WIP must be reviewed every 6 months. If an award is scheduled to close, but the WIP remains open, a justification required as to why the WIP will remain open. The open WIP may need to be moved onto a new account string.

III. Upgrades (also known as Betterments, Enhancements or Modifications)

Refer to Appendix B for detailed information on upgrades.

IV. Equipment Classifications

Capital equipment is classified based on ownership of or title to the equipment, which is determined by the provisions of the sponsored award terms and conditions under which it was acquired. There are four classifications of capital equipment used for research:

Classification	Purchase/Acquisition Details	Title	Description	Equipment Tag Type?			
				Harvard	Government	Depreciated?	F&A Calc.?
Sponsor-Funded	Purchased in whole or in part with sponsored funds	Harvard* *May be conditional title. See award terms & conditions & applicable federal regulations.	Sponsored equipment purchased with federal funds may also be considered "exempt equipment." Title to exempt equipment is conditional and is subject to federal use and disposition restrictions. Equipment purchased with non-federal funds may also be subject to special terms and conditions of the sponsored award.	Yes	No	Yes	No
Government-Titled Equipment (GTE)	Purchased with federal funds with title vested to the federal government	Government or External Entity	GTE may not be disposed or removed from service without approval from the sponsor. Note that non-federal sponsors may also reserve title to equipment according to the terms and conditions of the award.	Yes	Yes	Yes	No
Government-Furnished Property (GFP)	In the possession of, or acquired directly by, the federal government & subsequently delivered or otherwise made available to the University under a grant or contract	Government or External Entity	Title to GFP remains with the government, regardless of the equipment's value. GFP is recorded in Oracle Assets with an acquisition cost of $0, as the equipment is not purchased.	Yes	Yes	No	No
University-Funded Equipment	Purchased with non-sponsored university funds (including gifts or endowments)	Harvard	Title to University-funded equipment is vested with Harvard. University-funded equipment is tested as part of the Single Audit and is generally subject to the same guidelines as sponsored equipment. For policy information related to University-funded equipment, see the main Financial Management of Property, Plant and Equipment Policy.	Yes	No	Yes	Yes

V. Records

A. Identification of Equipment
See Inventory and Asset Management of the Financial Management of Property, Plant and Equipment Policy.

B. Tagging Equipment
All equipment that is the property of the federal government, whether Government-Titled Equipment or Government-Furnished Property, must be tagged with an additional tag identifying it as government property.

See Inventory and Asset Management of the Financial Management of Property, Plant and Equipment Policy.

C. Inventory Control
Federal regulations require any area with federally-sponsored research perform a full physical inventory of all sponsored and non-sponsored equipment with an original price of $5,000 or more every two years to verify both the accuracy of equipment records and the existence and current use of equipment (whether purchased, fabricated or furnished). Inventory records must contain information necessary to identify the equipment including equipment description, serial number, acquisition information and location. It is the responsibility of the areas to perform the federal and University-required inventories and maintain all inventory and equipment records. See Fixed Assets Inventory Job Aids.

D. Movement of Equipment
The movement of Government-Titled Equipment must be registered with the area-level equipment manager using an Offsite Equipment Form regardless of the duration of removal from its recorded location.

Additionally, the movement of Harvard equipment to international locations is subject to export controls. Please contact the area equipment manager and the area's Export Control Officer.

See Inventory and Asset Management of the Financial Management of Property, Plant and Equipment Policy.

VI. Disposition, Retirement and Impairment - See Appendix D

A. Retirement of Sponsor-Funded or Sponsor-Titled Equipment
Equipment purchased with sponsored funds is often subject to sponsor-specific disposition restrictions and may require additional sponsor approval before disposition. The area equipment manager will work with the Office for Sponsored Programs (OSP) to comply with any relevant sponsor restrictions. Additionally, any retirement request for capital equipment purchased on an active sponsored award should be reviewed by the area sponsored research office and OSP. Sponsor-titled equipment may not be removed from University premises or oversight without prior approval of the sponsor and OSP.

B. Equipment Sales (See Appendix D)
The University does not allow the sale of sponsor-funded equipment; exceptions to this policy are rare and are reviewed by the area equipment manager, area sponsored research office, the school or unit finance office and OSP on a case-by-case basis. Sales or Unrelated Business Income Tax may apply. Contact the Tax Reporting Office for additional information.

Responsibilities and Contacts – Summary for Capital Equipment for Areas with Sponsored Research

Harvard University: Harvard University is responsible for capital equipment in accordance with the provisions of the corresponding sponsored project and federal guidelines. Harvard has a decentralized equipment management structure under which individual areas are responsible for most aspects of sponsored equipment management. Management of capital equipment includes proper records maintenance, safeguarding of equipment, and assurance that disposition or encumbrance of equipment is performed in accordance with federal and other sponsor requirements.

Principal Investigators: Principal Investigators (PIs) are responsible for the management of capital equipment under their sponsored awards and have ultimate responsibility for compliance with this policy and the terms and conditions of the sponsored award. PIs are responsible for tracking equipment used in their lab or under their direction, assisting in the completion of reports and physical inventories, and prompt notification of the area equipment manager and department of any changes with respect to condition, location, loss, or damage.

Areas with Sponsored Research: Areas are responsible for maintaining their equipment records in Oracle Fixed Assets. In addition, areas are responsible for using, maintaining, protecting, and disposing of capital equipment according to the terms and conditions of the sponsored award through which the equipment was acquired. Areas are also responsible for following University capital equipment policies. Contact your area's equipment manager for additional guidance.

Office for Sponsored Programs: The Office for Sponsored Programs (OSP) is responsible for providing sponsored policy and procedural guidance. OSP is also responsible for responding to requests for reports and information from sponsors, auditors and other parties. OSP, on behalf of the areas, submits federal reports to the government (e.g. NASA form 1018).

Financial Accounting and Reporting: Financial Accounting and Reporting (FAR), within the Office of the Controller, maintains capital equipment policies to ensure adherence with Generally Accepted Accounting Principles (GAAP) and other regulatory requirements, to promote consistent accounting treatment across the University, and to ensure the operating results of University school and units are not misstated as a result of transactions unrecorded or recorded improperly.

Definitions – See Appendix G

Related Resources

Capital Equipment Policy Training
Government-Owned Property Overview and Procedures provides information on managing government-furnished property (GFP) and government-titled equipment (GTE).
Financial Management of Facilities and Equipment Policy –for all capital assets at the University (including equipment, buildings and land).
Procurement Policy

Appendix B: Detailed Guidance on Capitalizing vs. Expensing Expenditures

Basic rules for how and when to record capital items: To qualify for capitalization, an expenditure must meet all three of the below criteria. If the item does not meet all of these criteria, the amount must be expensed in the year incurred (i.e., when goods are received by or services are provided to the University).

- The item must be acquired for use in operations, and not for investment or sale, AND
- the item must have a useful life of one year or more, AND
- the amount must meet the following materiality thresholds.

Category	**Threshold for Capitalization**
Land	N/A – all land is capitalized
Land Improvements	$100,000 (in total project costs)
Buildings	$100,000 (in total project costs)
Building Improvements	$100,000 (in total project costs)
Leasehold Improvements	$100,000 (in total project costs)
Fixed Equipment	$100,000 – per unit
Furnishings and Equipment (MFE)	$5,000 – per unit
MFE Upgrades	$5,000 – per unit
Software – Purchased, Licensed, or Developed*	$5,000
Purchased or Licensed software but Harvard does not “own” the code or maintain the software.	Expense
Internally-Developed	$500,000 (in total project costs)
Purchased (Harvard “owns” the code and can customize and maintains the software)	$5,000 – per unit
Licensed (Harvard “owns” the code and can customize and maintains the software	$5,000 – per unit

Recording an amount as an asset requires a debit to the appropriate asset object code. The following are the object code ranges for facilities and equipment assets.

Equipment, furnishing and vehicle purchases (those that are not debt-financed and not part of a construction project) are initially recorded through the expense object code range 6800-6869, “Equipment, Furniture + Fixtures>=$5000”. The transaction is subsequently reclassified at the school or unit level to the appropriate asset object code via a nightly Mass Additions process. Once the Mass Additions process is completed, the Create Accounting process is run to create journal entries that will record the asset costs on the balance sheet. These journal entries result in the reclassification of the costs using special contra-funds. The equipment expenditure remains recorded in the original fund that was charged.

* See the Software Policy

I. Corresponding Expense/Asset Object Codes:

Asset Description	Expense Description	Asset Object Code	Expense Object Code
General Equipment	Noncomputer Equip, Non-Sponsored^Equip >=$5000	1000-1029*	6801
General Equipment	Noncomputer Equip, Sponsored^Equip >=$5000	1000-1029*	6802
Computer equipment	Computer, Non-Sponsored^Equip >=$5000	1030-1059*	6803
Computer equipment	Computer, Sponsored^Equip >=$5000	1030-1059*	6804
Residential furnishing + fixtures	Residential Furn+Fixtures, Non-Sponsored^Equip >=$5000	1060-1089*	6805
Residential furnishing + fixtures	Residential Furn+Fixtures, Sponsored^Equip >=$5000	1060-1089*	6806
Office furnishings + fixtures	Office Furn+Fixtures, Non-Sponsored^Equip >=$5000	1090-1119*	6807
Office furnishings + fixtures	Office Furn+Fixtures, Sponsored^Equip >=$5000	1090-1119*	6808
Vehicles	Vehicle, Non-Sponsored^Equip >=$5000	1120-1139*	6809
Vehicles	Vehicle, Sponsored^Equip >=$5000	1120-1139*	6810
Work in progress	Non-Sponsored Work in Progress^Equip >=$5000	1140-1169*	6811
Work in progress	Sponsored Work in Progress^Equip >=$5000	1140-1169*	6812
Scientific Equipment	Scientific Equipment, Non-Sponsored^Equip >=$5000	1003	6813
Scientific Equipment	Scientific Equipment, Sponsored^Equip >=$5000	1003	6814
Software	Software, Non-Sponsored^Equip >=$5000	1032	6815
Software	Software, Sponsored ^Equip >=$5000	1032	6816
Fixed Equipment	Fixed Equipment, Non-Sponsored >= 100,000	1000	6817
Buildings (including improvements)	*n/a	1200-1219	n/a
Land (including improvements)	*n/a	1230-1239	n/a
Capital leasehold improvements	*n/a	1240-1249	n/a
CIP-facilities construction	*n/a	1250-1399	n/a
CIP-land + buildings	*n/a	1400-1409	n/a
CIP-moveable furnishings + equipment	*n/a	1410-1419	n/a
CIP-other costs	*n/a	1420-1588	n/a
CIP-Interest	*n/a	1590-1599	n/a

* N/A – These costs must go through CAPS; they are not coded to the 68xx object code range. Acquisitions of buildings and land do not go through the CAPS system but should be identified in school and unit capital plans.

It is important to note that the $5,000 threshold, specified in the expense object code range 6800-6869, is for individual equipment, furnishings or vehicle purchases that cost $5,000 or more.

Costs cannot be capitalized for individual items (that are not part of multicomponent equipment) costing less than $5,000, even if the total purchase (invoice) exceeds $5,000. When this occurs, a separate set of object codes ranging from 6710-6789 must be used to capture these expenses.

Component parts of one piece of equipment (e.g., a CPU, computer monitor, keyboard, mouse, etc.), if purchased at the same time, must be accumulated and capitalized if, in total, the cost is greater than $5,000.

II. What Costs to Capitalize versus Expense

When acquiring land, land improvements, buildings, buildings improvement, and equipment, all significant expenditures that are necessary to obtain and prepare the asset for its intended use are generally capitalized, if they meet the capitalization guidelines outlined below. The capitalization guidelines differ for each type of asset.

A. Land

The following expenditures may be capitalized to the cost of land:

- The original acquisition price
- Commissions related to the acquisition
- Legal fees related to the acquisition
- Costs of surveys
- Costs of removing unwanted buildings that were present prior to the purchase from the land, less any proceeds from salvage, and that were intended to remove at the time of purchase.
- Costs of permanent improvements (e.g., replacing contaminated soil)

A listing of typical costs associated with the purchase of land and their capitalization versus expense treatment are presented in the charts that follow.

B. Land Improvements

Expenditures for land improvements that have limited lives are capitalized separately from the land and depreciated over their expected useful lives.

The following expenditures may be capitalized as land improvements if total project costs $100,000 or more:

- Private driveways
- Sidewalks
- Fences
- Parking lots
- Rights-of-way access or easements
- Lighting
- Sewer systems
- Landscaping

A listing of typical costs associated with land improvements and their capitalization versus expense treatment is presented in the charts here.

C. Buildings

1. If acquired by purchase

   In general, all costs associated with readying an asset for use may be capitalized. These costs must be specifically attributable to the purchase. Incidental costs (i.e., those not critical to preparing the asset for use) are expensed as incurred.

   For larger acquisitions, considerable pre-acquisition costs are common and may also be capitalized as long as the building is ultimately purchased. These are typically recorded as prepaid expenses to object code 0540, “Prepaid + Accrued items” and include:

   - Legal fees
   - Environmental studies (excludes remediation costs)
   - Transportation studies
   - Due diligence costs

- Real estate commissions

Once the acquisition is completed, any amounts previously recorded as prepaid expenses are transferred through AP Adjustment to the appropriate plant or Construction in Progress (CIP) account by crediting prepaid expense and debiting the appropriate plant or CIP object code.

For pre-acquisition costs to be capitalized, the acquisition must be completed. For example, where pre-acquisition legal fees are incurred and environmental studies are performed but the building in question is ultimately not purchased, the legal fees and environmental costs must be expensed.

In cases where land and a building are purchased together for one price, an allocation is required to appropriately split the cost between the two assets. This allocation is made using appraisal values at the time of purchase.

2. If acquired by construction
Constructed buildings can include a broader range of capitalizable costs than purchased buildings. These costs may include such items as salaries for project managers, overhead and external interest charges. A listing of typical costs incurred to construct a building and their capitalization versus expense treatment is presented in the charts that follow.

In cases where land and a building are purchased with the intent to remove the building to prepare the land for construction of a new building, the cost of the building being demolished is capitalized to the land, rather than as part of the cost of the new building. This would include any hazardous materials remediation.

The cost of removing an existing building that was not intended to be removed upon purchase and that has been in use for some time is treated as an adjustment to the gain or loss on disposal of that building, and not as part of the costs capitalized with the newly constructed building.

It is important to distinguish between the cost of the building and the costs of other assets, such as movable furnishings and equipment (MFEs). MFE costs are treated as separate assets and depreciated over their expected useful lives. MFEs are discussed further in the "Equipment if acquired by construction" section of this document.

3. Completing Construction
A project must be placed in service (PIS) upon completion, typically upon the Certificate of Occupancy. The close request is initiated through CAPS as the Construction Close Request (CCR), which is submitted to FAR. This is the same process used for building improvements, discussed below.

It is imperative that the PIS date be reviewed to ensure it accurately reflects the date of completion, rather than the date that the form has been submitted. This may result in catch-up depreciation.

D. Building Improvements
To qualify for capitalization, building improvement expenditures must exceed $100,000 (excluding MFE costs) in total and represent significant alterations, renovations or structural changes that increase the usefulness of the asset, enhance its efficiency or prolong its useful life by more than one year.

Whenever any building improvements are undertaken, it should be noted that the previous assets associated with the building should be reviewed for impairment. Refer also to the Internal Control Matrix.

1. Capitalizable building improvements may include interior or exterior renovation of a building, or upgrading of building systems such as electrical wiring or plumbing. They may also include the

completion of interior or exterior finishes, so long as they represent a significant alteration or renovation. There are three major categories of renovation that may be capitalized:

a. Alterations – changes to the internal structural arrangement or other physical characteristics of an existing asset so that it may be effectively used for a newly designated purpose. Examples of alterations include:
    - Adding a lunch area, rest rooms, offices or a new wing to an existing building
    - Changing classroom space into office space
    - Converting three offices into one office
    - Installing new wiring, heating, painting and leasehold improvements to prepare the property for new use by a tenant

b. Renovations – the total or partial upgrading of a facility to higher standards of quality or efficiency. Examples of renovations include:
- Conforming a building or area to municipal building code or government regulations
- Replacing a sheet metal roof with a copper roof
- Transitioning an old research laboratory into a state-of-the-art facility, with new fixed equipment, lighting or other subsystems

c. Renewals and replacements – the overhaul or replacement of major constituent parts that have deteriorated because of time or usage, where the deterioration has not been corrected through ongoing or required maintenance and now requires a major overhaul. These projects can involve <u>fixed</u> equipment, which is different from moveable furniture and equipment (MFE). Fixed equipment is defined as equipment that is bolted to and part of the operations of a building (i.e., elevators, coolers, boilers, etc.) In research buildings, fixed equipment is tracked as a separate component. Examples of renewals and replacements include:
    - Installing a new floor
    - Replacing old or broken windows as part of a larger renovation project
    - Replacing electrical, plumbing, heating or air conditioning systems
    - Resurfacing an entire roof (even if it is replaced with the same type of material that previously existed)

Note: Research facilities must be componentized, meaning asset components are grouped and depreciated in separate categories with differing useful lives. Such components include the shell, roof, finishes, fixed equipment and services. Depreciation methods and corresponding useful lives are discussed in Appendix C of this policy.

In contrast to the three broad improvement categories that qualify as capital expenditures, there are two major types of expenditures that DO NOT qualify as capital in nature and are to be expensed in the year incurred:

2. Repairs and maintenance – costs associated with recurring work required to preserve or immediately restore a facility to such condition that it can be effectively used for its designated purpose (i.e., not a new purpose). Examples of repairs and maintenance work include:
    - Repairs made to prevent damage to a facility
    - Custodial services
    - A leaky faucet repair
    - Replacement of minor parts
    - Replacement of a worn-out rug
    - Redecoration or remodeling without a change in purpose and not associated with a larger renovation project
    - Repainting or wallpapering
    - Installation of wall-to-wall carpeting

Note that in practice, invoices for repair and maintenance projects sometimes include equipment-type assets that, on their own, would qualify for capitalization.

3. Preservation and restoration – costs associated with maintaining *special assets* (e.g., works of art) or returning them to a level of quality as close to their original state as possible. Examples of preservation and restoration include:
   - Returning a stained glass window to its former level of beauty or acting to prevent further deterioration
   - Cleaning a painting

   Harvard does not capitalize its collections, and as such, related preservation and restoration costs are expensed as incurred. For more information on collections accounting, contact the Associate Director for Accounting Operations.

E. Capital Leases
Capital leases require special handling as FAR will need to create a placeholder asset and corresponding lease obligation on behalf of the School/School/unit. See the Accounting for Leases Policy for more information.

F. Leasehold Improvements (LHIs)
The same procedures for determining whether renovations can be capitalized or expensed apply to improvements made by a University school or unit to property not owned by that school or unit. This applies to space improvements in University-owned buildings pursuant to an occupancy arrangement between Harvard schools and units. Generally, improvements made to leased premises are capitalized if they meet these criteria and qualify as alterations, renovations, renewals or replacements. These leasehold improvements are depreciated over the life of the asset or the external lease term plus tenant extensions, whichever is shorter. The school or unit preforming the leasehold improvement is responsible for those costs, and if the school or unit leaves the space prior to these assets being fully depreciated, then the impairment goes onto the school or units books (charged to object code 8722). If another Harvard entity occupies the space, then the leasehold improvement is transferred to the new occupant and depreciated over the remaining life. If the new occupant renovates the space (within the first 6 months of the lease transfer), the impairment will be on the original school or units books.

G. Equipment
1. If acquired by purchase
   Equipment purchases include items such as machinery, equipment, furniture and fixtures. The following costs are applied towards the $5,000 acquisition cost and should be capitalized with the equipment upon acquisition:
   - The original purchase price (or individual items ≥$5,000 or for fixed equipment ≥ $100,000)
   - Freight, insurance, handling, storage, brokerage fees and other costs specifically related to acquiring the assets (e.g., protective in-transit insurance, legal or customs fees)
   - Costs of installation including site preparation, assembly and installation
   - Costs of trial runs and other tests required before the asset can be fully operational
   - Costs of reconditioning and asset purchased in a used state (original price must be ≥$5,000)
   - Modifications, attachments, accessories or auxiliary apparatus at the time of purchase that are necessary to make the item usable for its intended purpose
   - Upgrades or enhancements that cost at least $5,000 that increase the equipment's useful life by one year or more

Types of costs that ***may not*** be capitalized as equipment:
   - Repair or maintenance costs

- Separate warranty costs or maintenance contracts
- Demolishing or dismantling costs
- Spare or replacement parts
- Fabrications as part of the sponsor-funded research and development
- Fabrications created for delivery to a third-party
- Training or specialized testing
- Costs required to preserve or restore a piece of equipment to such condition that it can be effectively used for its designated purpose

2. Multi-component Equipment
Multi-component equipment is comprised of individual components of commercially-available equipment or materials **requisitioned together** that are assembled to operate as a system (e.g., a microscope, camera, laser, optics, etc.). Component parts of one piece of equipment must be accumulated and capitalized if, **at the time of requisitioned**, the total cost is $5,000 or more. Component pieces can be purchased from one or more vendors. Multicomponent equipment may have one inventory tag assigned, although there may be cases when more are necessary, which should be at the discretion of the Equipment Manager or equivalent.

3. Fabrications – Work in Progress (WIP)
Fabrications consist of non-expendable, tangible property that meet the following conditions:
   - Physically constructed by Harvard personnel
   - Have aggregate capitalizable costs of at least $5,000 and have a useful life of one year or more
   - made up of parts and materials combined or manufactured to work together as a traceable unit and are not simply a multicomponent assembly of separate items
   - The creation of the fabrication is not prototyping (defined as iterative design with the goal of a preliminary model to prove utility prior to production)
   - The completed fabrication is not a deliverable of a contract or agreement
   - There is a reasonably certain date for the completion of the fabrication
   - There is an expectation that the fabrication will be used to generate useful results in support of Harvard research.

Types of fabrication costs that ***may not*** be capitalized:
- Fabrications as part of the sponsor-funded research and development (recorded as expense)
- Fabrications created for delivery to a third-party (recorded as inventory)
- Prototypes (recorded as expense)

Schools or units must review all their equipment Work in Progress (WIP) every 6 months to determine if they should be placed into service or written off or documented as to the reason the project should remain open. This review must be aligned so as to ensure one of the bi-annual reviews is done close to year end (i.e., as of May or June). For any school/unit/area with Sponsored WIP, please see Appendix A for additional review requirements for sponsored WIP within 6 months of the award close-out timeline. Exceptions for inactive fabrications remaining open should be rare.

Fabrications are depreciated as an asset of the University once placed in service.

III. Accounting for a Fabrication

A. Areas may require prior approval before the construction of fabrications begins. Fabrication costs are charged using a fabrication object code and unique Work in Progress (WIP) activity assigned to a project. A placeholder asset using tag number, activity, or other unique identifier must be created in Oracle Fixed Assets to track associated fabrication transactions. The WIP object codes are:

6811	Non-Sponsored Work in Progress^Equip >=$5000
6812	Sponsored Work in Progress^Equip >=$5000

Only costs integral to the fabrication may be capitalized. Integral costs include any material or supply that becomes a permanent part of the fabrication, any internal service center charges, and any external shop fees. Harvard labor costs which are outside of a service center cannot be capitalized on sponsored awards unless the sponsor terms and conditions explicitly state that the award **must** be use for a capital project. Any capitalization of Harvard labor costs on sponsored awards must otherwise meet the requirements for fabricated assets in this policy and its appendices and the requirements in the Harvard Software Accounting Policy and its appendices.

B. Completing Fabrications (See Main Policy)
A fabrication must be placed in service (PIS) when it is capable of rendering the intended useful results **and** the aggregate costs meet the capitalization threshold of $5,000 or more. Placing a fabrication in service will initiate depreciation during the month it is placed in service. At a minimum, areas must review fabrications every 6 months.

When an equipment project is rendering useful results, it must be placed in service (PIS). WIP is placed into service by FAR for non-debt financed fabrication and by OTM for debt financed fabrication. The school or unit must complete the Notification of Completion of Capital Equipment Fabrication form and submitted to OTM if the project is debt financed or too FAR if internally-funded. Once OTM or FAR receives the notification form, their office will process the change in Oracle Fixed Assets that will credit the WIP object code and debit the appropriate asset object code.

Costs may not be capitalized indefinitely. A sponsored fabrication's construction period is generally set by the scope of the sponsored project, however, schools or units should review the status of all in-progress fabrications at least every 6 months.

If a fabrication is rendering useful results but does not meet the capitalization threshold, the fabrication must be written off and the fabrication account closed. See write-off procedures in Appendix D.

If a fabrication is intended to be shipped outside of the U.S., your school/unit/area Export Control Administrator or school or unit finance offices should be contacted in order to determine whether an export license is required. This process may take several months, so advanced notification is necessary.

Upgrades (also known as Betterments or Enhancements)
In some instances, additional costs to capitalized equipment may represent an upgrade and may be capitalized as such. For costs to be considered an upgrade it must meet the following criteria:

- the individual unit cost must be $5,000 or more, AND
- it must increase the useful life by one year or more, OR
- it must add new or additional functionality to the existing piece of equipment/unit (additional functionally is defined as increasing the equipment's condition beyond its original or current state or an increased range of operations that may enhance the equipment's operating condition, increase in the equipment's useful function or service capacity, or improve the quality of the service(s) delivered through the equipment's use).

Replacement parts purchased for, or repairs done to equipment to return it to such condition that it can be effectively used for its designated purposes are not considered upgrades and must be expensed as incurred. The following are examples of costs that should be expensed as incurred:

- preservation of the equipment's original serviceability
- maintenance of efficient operating condition
- restoration of the equipment to its previous condition

- Consumable portions of the equipment, which must be periodically replaced

Fixed Equipment
Fixed equipment includes assets that are permanently attached to and are an integral part of the operations of a building (i.e. elevators, coolers, boilers, etc.). This type of equipment may be purchased as part of a building or building improvement project or as a separate upgrade. When total associated costs for a single piece of fixed equipment are $100,000 or more it would be capitalized directly. If the fixed equipment is included as part of a construction project where total costs are at least $100,000, then the fixed equipment is treated as a Construction in Progress, or "CIP", project.

Fixed equipment, by definition, is attached to and part of a building, and it is therefore not necessary to inventory fixed equipment.

When fixed equipment is included in a CIP project as one of many activities of the project, it is common practice that the fixed equipment be placed in service at the same time as the CIP project. Fixed equipment is separately identified in projects in buildings which are categorized as primarily lab use and are included in the componentization of assets.

Considerations for whether fixed equipment should be included in a CIP project are below:

- Installation is being done in conjunction with overall CIP project work
- The CIP project would not be complete without the item
- The equipment requires removal or installation by a professional
- Municipal acceptance of the CIP project (Certificate of Occupancy or sign-off on a permit) work requires the equipment be installed and operational
- Equipment cannot be easily moved to another building (Note - if it can be easily relocated, it might still be part of a CIP project, but classified as MFE rather than fixed equipment.)

CIP projects for lab renovations include permanent equipment that is specific to the lab but could be retained and used by others within the School. (Specifically excluded is scientific equipment or instruments.) Examples of fixed lab equipment include:

- Built-in benches, bins, cabinets, counters, shelving
- Conveying systems
- Fume hoods
- Sinks and drain boards.
- Sterilizers (built-in).

By contrast, the following are not capitalizable:
- repair and maintenance costs,
- separate warranty or maintenance contracts,
- demolishing or dismantling costs,
- Spare or replacement parts.

Moveable Furniture and Fixtures (MFE) - Acquired by construction as part of a building
MFE costs that are part of a larger building construction project are treated separately from the building itself and depreciated according to their expected useful lives, which are typically less than the useful life of the building itself. These costs must be recorded within the CIP range of object codes for MFE (1410-1419). At the project's close, MFE costs will be placed into service by crediting object code 1621 and debiting the equipment/furnishings asset classes that correspond to the CIP object codes to which they were originally charged.

Object codes: Constructed equipment costs that are not part of a larger building construction project but that are distinct projects are recorded initially through either expense object code 6811, "Non-Sponsored Work in Progress^Equipment >= $5000", or object code 6812, "Sponsored Work in Progress^Equipment >= $5000." Debt- financed equipment WIP expenditures are charged directly to the balance sheet using object code 1140, "Equipment, Debt-financed, WIP." On a weekly basis, items charged to object codes 6811 and 6812 are reclassified to object codes 1150, "Equip WIP, Non-sponsored" and 1151, "Equip WIP, Sponsored," respectively, via the Oracle fixed asset sub ledger accounting (SLA). This reclassification adjustment is recorded through a special contra-fund. As a result, the equipment expenditure remains recorded in the original fund that was charged.

Service Center Assets
Academic Service Centers are units within Harvard departments or centers that charge for goods or services that directly support the research or academic mission of the University and recover costs through charges to internal and external users. All Academic Service Centers are expected to recover no more than the aggregate costs of their operations through charges to users. As such, equipment purchased for use in service centers may have a useful life that is longer or shorter than the default useful life of the equipment category used. Oracle Fixed Assets uses subcategories for these service center assets, allowing users to adjust the useful life to one that more closely matches the duration the equipment will be utilized in a service center.

For more information on Academic Service Centers, see the OSP Academic Service Center Policy. For a list of available service center subcategories and useful lives, see Appendix C.

Other Acquisition Types
New faculty transfers – When a new faculty member arrives with equipment, the equipment must be treated accordingly. If ownership/title of the equipment remains with either the faculty member or original purchasing institution, no accounting entries are required. However, local policy may dictate that the equipment be recorded in Oracle Fixed Assets at zero cost in order to track the equipment. If ownership/title of the equipment is transferred to the University, it is necessary to record the equipment in Oracle Fixed Assets at zero cost to be able to track the equipment. If payment is made to the original purchasing institution, the assets will automatically be captured through the Accounts Payable process. If title is transferred without payment the Alumni Affairs and Development Gift Policy Guide must be adhered to and the acquiring school or unit will need to manually record the equipment in Oracle Fixed Assets and record a corresponding entry to account for the value of the donated assets.

Assets provided by the Federal Government – When a federal agency provides a school or unit with equipment, the agency retains title to the asset. However, the University is still obligated to track this asset. The school or unit receiving these types of assets are required to enter the assets into Oracle Fixed Assets at zero cost so that it can be tracked and inventoried.

Software
See separate Software Policy

Accounting for fully depreciated assets
Assets that remain in use, regardless of net book value, should remain in Oracle Fixed Assets. Assets that are fully depreciated (the net book value of the asset less accumulated depreciation is zero) and no longer in use and or are obsolete, must be written off in Oracle Fixed Assets. This is performed by the fixed asset manager at the school or unit level.

Placed in Service Date (PIS)
For purchased equipment assets, the placed in service date defaults to the invoice date contained in the AP feed that populates the Oracle Asset Workbench. For fabricated equipment assets, the placed in service date should be the date the asset is sufficiently developed or is producing intended results. This date is also used to begin depreciation. In some cases, local asset managers will have a need to change the placed in service date to a

different date. (For example, a new piece of equipment is being installed and additional parts are being added. It takes 3 months to get the equipment ready for service.) In these cases, it will be the school or unit's fixed asset manager or financial manager responsibility to manually adjust the placed in service date.

For constructed assets, the placed in service date is the date the CO or TCO if use of the asset occurs, was issued. If no certificate is needed, the placed in service date will be the Certificate of Substantial Completion has been received from the contractor, or municipal sign-offs on construction permits have been received that allow use of the space/asset.

Research & Development Costs

Generally Accepted Accounting Principles (GAAP) require research and development costs be expensed as incurred. ASC 730-10-20 defines research and development costs as follows:

- Research is planned search or critical investigation aimed at discovery of new knowledge with the hope that such knowledge will be useful in developing a new product or service (referred to as product) or a new process or technique (referred to as process) or in bringing about a significant improvement to an existing product or process.

- Development is the translation of research findings or other knowledge into a plan or design for a new product or process or for a significant improvement to an existing product or process whether intended for sale or use. It includes the conceptual formulation, design, and testing of product alternatives, construction of prototypes, and operation of pilot plants.

Substantially completed assets (soft or partial close) – See Main Policy

Substantially completed projects are those where the facilities are in use and major construction has been completed. When construction projects are substantially completed, the assets are transferred from CIP to PIS. At this point, depreciation begins, and for debt-financed projects, debt repayment begins and capitalization of interest ends.

Once the project is placed in service and fully closed, any remaining costs are expensed as incurred, the CIP activity is closed, and no additional spending may be charged to the project.

Environmental Remediation Costs

Capital projects can give rise to environmental remediation expenses. Depending on the nature of the costs, the type of project (renovation vs. acquisition) and other factors, these costs may be capitalizable. It is important to engage the Environmental Health Safety and Emergency Management department, along with Campus Services and FAR prior to commencing any project with environmental remediation costs.

Capitalization of Interest

Interest incurred on funds borrowed to finance construction projects is capitalized to those projects. Interest is charged over the life of the project and continues until the project is complete and the assets are placed in service. Once placed in service, the capitalized interest is allocated to the various types of assets and depreciated over the assets' expected useful lives. Any interest incurred after the assets are placed in service is expensed.

In the case of under-funded capital projects (those in which the spending has exceeded the funding), interest is again charged to the project and capitalized to the underlying constructed assets.

Conversely, in the case of funded CIP, where current funding exceeds CIP costs to date, interest is earned and credited to the project's activity through object code 4530, "Interest Income, GOA, and school or unit Net Asset, GENERAL." When the project is complete and ready to be placed in service, any earned interest is treated first as a funding source of the project and credited to CIP equity. Any over-funded amounts are returned to the original funding source (e.g., a gift fund, unrestricted designated fund, etc.).

Reference on when to capitalize versus expense items when acquired by purchase

Capitalization Versus Expense Guidelines – Item Acquired By Purchase				
	CAPITALIZE			
AT PURCHASE	Land (all amounts)	Building (and improvements) (if total project costs >= $100,000)	Moveable Furnishings + Equipment (if >= $5,000)	ALWAYS EXPENSE
Accounting fees	X	X		
Application fees (e.g., permits, etc.)	X	X		
Appraisals	X	X		
Broker's fees or other purchase commissions	X	X		
Closing costs (other than real estate taxes or interest)	X	X		
Engineering services	X	X		
Feasibility studies that lead to asset purchase	X	X		
Finder's fees	X	X		
Fixed (NOT moveable) equipment and furnishings		X		
Inspection costs	X	X		
Installation fees (i.e., costs to install equipment)			X	
Interest expense				X
Legal and consulting fees	X	X		
Moving and relocation: moving people, equipment or utilities/infrastructure in or out of building				X
Other professional services related directly to the purchase	X	X		
Purchase price	X	X	X	
Real estate taxes				X
Recording fees (e.g., title/ownership Registration, etc.)	X	X		
Title insurance	X	X		
Title searches	X	X		

Reference on when to capitalize versus expense items when acquired by construction

Capitalization Versus Expense Guidelines – Item Acquired By Construction					
	CAPITALIZE				
	Land (all amounts)	Land	Building (and improvements) (if total project costs >= $100,000	Moveable Furnishings + Equipment (if >= $5,000)	ALWAYS EXPENSE
Accounting fees	X		X		
Alterations – changes in the internal structural arrangement or other physical characteristics of an existing asset so that it may be effectively used for a newly designated purpose (e.g., adding a new wing or offices, changing office space into classroom space, converting three offices into one office, fitting out space for a new tenant, etc.)			X	X	
Appraisals	X		X		
Architectural services		X	X		
Asbestos removal where asbestos was present at acquisition/construction			X		
Bed tax					X
Built-in bookshelves or other built-in furnishings			X		
CAPS fee		X	X		
Clearing, grading and filling where site was purchased for the purpose of constructing a building	X	X			
Compensation (salary) costs of employees whose servicesare used in the construction		X	X		
Construction supervision fees		X	X		
Dedication expenses					X
Demolition/removal of old buildings or structures where building construction was not anticipated at the time of land acquisition					X
Demolition/removal of old buildings or structures where site was purchased with the intent of constructing a new building	X	X			
Design costs		X	X		
Easements or rights-of-way access		X	X		
Engineering fees		X	X		
Environmental clean-up costs, where the asset has been in use for some time					X
Environmental clean-up costs, at time of acquisition	X				
Feasibility studies that lead to construction		X	X		
Fences (new or replacement)		X			
Fixed (NOT moveable) equipment and furnishings		X	X		
HVAC			X		
Infrastructure fee					X
Insurance costs during construction period		X	X		
Insurance costs NOT during construction period					X
Interest expense during construction period		X	X	X	
Interest expense NOT during construction period					X
Land development fees	X				

Capitalization Versus Expense Guidelines – Item Acquired By Construction

	CAPITALIZE				
	Land (all amounts)	**Land**	**Building (and improvements) (if total project costs >= $100,000**	**Moveable Furnishings + Equipment (if >= $5,000)**	**ALWAYS EXPENSE**
Landscaping	X	X			
Legal + consulting fees related to the construction		X	X		
Litigation - claims against subcontractor					X
Lost rental revenue					X
Maintenance and repair (e.g., custodial services, fixing a leaky faucet, replacement of minor parts, replacing a worn out rug, etc.)					X
Maintenance of existing sidewalks, fences or pavement					X
Materials related directly to construction		X	X	X	
Mitigation costs					X
Moving and relocation: moving people, equipment or utilities/infrastructure in or out of building					X
North Yard fee					X
Overhead attributable to the project		X	X		
Pavements (new or replacement)		X			
Professional fees directly related to construction		X	X		
Redecorating (e.g., repainting or wallpapering, installing wall-to-wall carpeting)				X	
Renovations - the total or partial upgrading of a facility to higher standard of quality or efficiency than originally existed (e.g., conforming building to municipal code or government regulations; new/better outdoor lighting to conform to safety regulations, transitioning old classroom into one with state-of-the- art lighting and computer hook-ups, etc.)		X	X		
Rent for swing space - rental expense for additional space due to construction displacement					X
Rent credits - reduction in the rent charged to tenants as construction mitigation, typically a reduction in rent revenue					X
Replacements, renewals, betterments - overhaul or replacement of major constituent parts that have not been maintained and have deteriorated to the point that now requires a major overhaul (e.g., installing a new floor; resurfacing an entire roof; replacing electrical, plumbing, heating or air conditioning systems; replacing in ground lighting; replacing a deteriorated wall, etc.)		X	X		
Sidewalks (new or replacement)		X			
Soil refinement where soil was contaminated at acquisition	X				
Soil refinement where soil was NOT contaminated at acquisition					X
Special assessments directly related to the property	X				

Capitalization Versus Expense Guidelines – Item Acquired By Construction					
	CAPITALIZE				
	Land (all amounts)	Land	Building (and improvements) (if total project costs >= $100,000	Moveable Furnishings + Equipment (if >= $5,000)	ALWAYS EXPENSE
and mandated by local governing bodies					
Surveys		X	X		
Teledata closet (i.e., an area that houses data lines, switching equipment, etc.)			X		
Teledata equipment				X	
Temporary structures (e.g., ramps, loading docks, etc.) necessary for construction		X	X		
Test borings (soil and land assessments)		X	X		
Transportation Access Plan Agreement payments	X				
Utility fees during the construction period			X		
Utility fees NOT during the construction period					X

Appendix C: Detailed Guidance on Depreciating Facilities and Equipment

Assets begin depreciation in the month the asset was purchased or placed into service, with a full month of depreciation expense recorded at the month-end close. For building assets, the placed in service date is the date the CO or TCO, if use of the building occurred, was issued If no certificate is needed, the placed in service date will be the Certificate of Substantial Completion has been received from the contractor, or municipal sign-offs on construction permits have been received that allow use of the space/asset. For purchased equipment, the placed in service date is the date on the invoice for purchased equipment; for fabricated equipment, the placed in service date is the date the equipment is sufficiently developed and is available for use or is producing science.

Depreciation categories are grouped separately for research and non-research facilities. The standard useful lives of depreciable assets (other than research facilities) are:

Asset Category	Depreciation Method	Standard Useful Life
Buildings	Straight line	35 years
Building and land improvements	Straight line	35 years
Leasehold improvements	Straight line	35 years OR the remaining period of the lease plus tenant extensions, whichever is shorter
Fixed equipment	Straight line	15 years
Equipment	Straight line	7 years
Computer equipment	Straight line	4 years
IT Networking and Infrastructure	Straight line	15 years
Audio visual equipment	Straight line	5 years
Scientific equipment	Straight line	8 years
Furniture and fixtures – residential	Straight line	3 years
Furniture and fixtures – office	Straight line	7 years
Vehicles	Straight line	4-10 years
Software	Straight line	4 years
Service Center Assets	Straight line	3 – 8 years

Note that land is not depreciated, and therefore does not have an associated useful life.

Assets that remain in use, regardless of net book value, should remain in Oracle Fixed Assets.

Research facilities must be "**componentized**," meaning assets are grouped and depreciated in separate categories with differing useful lives. The standard useful lives for research facilities are:

Research Facility Component	Depreciation Method	Standard Useful Life
Shell*	Straight line	45 years
Roof	Straight line	15 years
Finishes**	Straight line	10 years
Fixed equipment	Straight line	15 years
Services***	Straight line	20 years

* Shell represents exterior walls and additions, including windows.

** Finishes represent final construction fit-outs required to make the space useable, such as flooring, carpeting, interior walls, installed table tops, painting, etc.

*** Services represent internal building systems such as elevators, plumbing systems and heating and air-conditioning systems.

Oracle Fixed Assets utilizes subcategories to capture useful lives that are different from the default useful lives associated with the asset object codes. Below is a table summarizing the additional subcategories and useful lives. Other useful lives are available contact FAR for guidance.

Asset Category	Object Codes	Standard Useful Life*	Optional Subcategory (in Oracle Fixed Assets)
Buildings (PIS)	1200	35 years	Shell, Roof, Finishes, Fixed Equipment, Services
Building improvements	1200	35 years	
Leasehold improvements	1240	35 years OR the remaining period of the lease plus extensions, whichever is shorter	
Land improvements	1230	35 years	
General equipment:			
CO^Equip, General, Nonsponsored	1000	7 years	Service Center Asset
CO^Equip, General, Sponsored	1001	7 years	Service Center Asset
General Equipment, Non-Consolidating School/units	1002	7 years	
CO^Equip, Scientific, Nonsponsored	1003	8 years	Service Center Asset
CO^Equip, Scientific, Sponsored	1004	8 years	Service Center Asset
CO^Equip, Debt-financed, General	1020	7 years	
CO^Equip, Debt-financed, Scientific	1021	8 years	
Computer equipment:			
CO^Equip, Computer, Nonsponsored	1030	4 years	Service Center Asset; IT Infrastructure
CO^Equip, Computer, Sponsored	1031	4 years	Service Center Asset; IT Infrastructure
CO^Equip, Software, Nonsponsored	1032	4 years	
CO^Equip, Software, Sponsored	1033	4 years	
CO^Equip, Debt-financed, Computer	1050	4 years	IT Infrastructure
CO^Equip, Debt-financed, Software	1051	4 years	
Scientific equipment	1003,1004	8 years	Service Center Asset
Furniture and fixtures – residential:			
CO^Equip, Residential F+F, Nonsponsored	1060	3 years	
CO^Equip, Residential F+F, Sponsored	1061	3 years	
CO^Equip, Debt-financed, Residential F+F	1080	3 years	
Furniture and fixtures – office:			
CO^Equip, Ofc F+F, Nonsponsored	1090	7 years	
CO^Equip, Ofc F+F, Sponsored	1091	7 years	
CO^Equip, Debt-financed, Ofc F+F	1100	7 years	
Vehicles:			
CO^Equip, Vehicle, Nonsponsored	1120	4-10 years	Heavy, Medium
CO^Equip, Vehicle, Sponsored	1121	4-10 years	Heavy, Medium
CO^Equip, Debt-financed, Vehicle	1130	4-10 years	Heavy, Medium

Appendix D: Detailed Guidance on Disposition, Retirement and Impairment

Basic rules for disposals and impairments:
When an asset has been sold, demolished, is no longer in service or its value has been permanently impaired, any remaining value of the asset, net of accumulated depreciation, less any salvage value, must be written off or written down to its net realizable value. This involves removing both the asset and the accumulated depreciation from the general ledger and the Assets Inventory System, and recognizing a gain or loss for the difference. Any outstanding loans on debt-financed assets that are being written off must be settled before impairments can be written off.

Complete the Equipment Disposal Request Form and submit it to the Capital Assets Program Office, and attach to the asset inside of the Oracle Financial system.

I. Types of Disposals:

A. Sales of Assets

1. Sales of Buildings or Property

All sales and demolitions to the physical plant should be specified in the capital plan narratives (MYCP and/or one-year capital budget). Sales and demolitions will be subject to review by the Provost and review by the Executive Vice President (EVP), with input from the Planning Office and Campus Services.

Acquisitions and dispositions not included in CPATH or in the capital plan will be handled as Exceptions requiring review by the Provost and review by the EVP, with input from the Planning Office and Campus Services."

2. Equipment Sales

Any request to sell capital equipment must be reviewed and approved by the area-level equipment manager before the equipment can be removed from University premises or oversight. The University does not allow the sale of sponsor-funded equipment; exceptions to this policy are rare and are reviewed by the area equipment manager, area sponsored research office, and OSP on a case-by-case basis.

a. ***External Sale*** – Sales of assets to third parties will result in either a gain or loss on sale. Where proceeds are greater than the net book value of the asset (historical cost less accumulated depreciation), the gain is credited to object code 5772, "Gain on sale, Capital Asset^Miscellaneous Income, External." Conversely, where proceeds are less than the net book value of the asset, the loss is debited to object code 8722, "Loss on sale of capital asset." In either case, the local fixed asset manager or school or unit finance office must write off the asset through Oracle Fixed Assets. If the asset is not yet fully depreciated, Financial Accounting and Reporting (FAR) must transfer any remaining plant equity to operating net assets as a below-the-line internal transfer (non-operating activity). See the University's Internal Transfer Policy for further information. When selling assets, any outstanding loans relating to the assets must be settled; consult the Office of Treasury Management (OTM) in these cases. Communicate all external sales, including relevant asset numbers, retirement report, detail on cash receipt coding from sales proceeds, and the transaction listing for any o/c 8722 write-off, to Financial Accounting and Reporting (FAR), as there may be additional accounting entries necessary.

Sales or Unrelated Business Income Tax may apply. Contact the Tax Reporting Office for additional information.

b. ***Internal Sale*** – When an asset is sold or transferred between schools or units, no gain or loss on the transaction may be recorded since the asset is still owned by the University, and gains or losses may not be internally generated. The asset is transferred at the net book value at the time of sale. Transfer request must be done through FAR as the assets need to be reassigned between the two schools/units in Oracle Fixed Assets. Any amount exchanged in excess of the net book value is recorded through the 9300 range of object codes as a below-the-line internal transfer (non-operating activity), and would not affect the net book value of the asset. The school or unit transferring assets should contact FAR to ensure that the corresponding plant equity is transferred along with the asset. See the University's Internal Transfer Policy for further information. For buildings, the root number remains the same; FAR updates the root's attributes to reflect the building's new owner and any change to the building's primary use.

B. Demolition

1. ***Partial demolition*** – In cases where part of a structure is being demolished so that a new addition may be built, the costs related to the partial demolition are capitalized to the new capital project by coding invoices to the CIP object code 1254, "CIP, Demo+Site Prep." The historical costs associated with the asset that is being partially demolished must be written off in Oracle Fixed Assets, meaning prior CAPS projects affiliated with the same space/building must be evaluated for impairment. The write-down of a partially demolished capital asset must be done in Oracle Fixed Assets by the school or unit Financial Office or Fixed Asset Manager. No additional entries are required as Oracle Fixed Assets will record the corresponding loss on disposal and transfer of plant equity.

2. ***Full demolition*** – When an entire building or piece of equipment is demolished, the asset and accumulated depreciation are written off, and a loss on demolition is recorded to object code 8722, "Loss on Sale/Disposal of Capital Asset" for the difference. The costs associated with the demolition are expensed as incurred. The write-off of a capital asset must be done in Oracle Fixed Assets by the school or unit's Financial Office or Fixed Asset Manager. No additional entries are required as Oracle Fixed Assets will record the corresponding loss on disposal and transfer of plant equity. When disposing of assets, any outstanding loans relating to the assets must be settled; contact OTM in these cases.

C. Departing Staff/Faculty Transfers

Equipment assets that are transferred with a departing faculty or staff member are handled based on how the assets have been accounted for and who has title to the assets. Note that school or other local policy may apply.

- If the assets are recorded in Oracle Fixed Assets at zero value for the purposes of tracking, then local asset managers retire these assets on Oracle Fixed Assets (this would have been done with equipment that was transferred to the University by another institution, by the faculty member). If the University does not have title to these assets, no gain or loss is recorded.
- If the assets belong to the University, then the assets need to be retired, which may result in a loss (if the equipment is not fully depreciated) or a gain (if payment is made upon the transfer of equipment – see also equipment sales above). Depending on the type of transaction (gift or sale to the faculty, staff member) Payroll should be contacted to ensure any benefit to the faculty or staff member is properly recorded. If cash is exchanged for the asset, contact FAR, in accordance with the requirements of asset sales.
- Questions on how to determine fair market value can be directed to FAR.

II. Sponsored Assets

Sponsored assets may require prior approval from the sponsoring agency before disposal or removal from service. For any type of disposal, departments must complete the Equipment Disposal Request Form or equivalent documentation and provide it to their school's equipment management office. Disposal of sponsored equipment is subject to the approval and conditions of the federal sponsoring agency. If the title of the asset belongs to someone other than Harvard, no gain or loss should be recorded on the transaction. These assets should have a zero value in Oracle Fixed Assets. See Appendix A for more information on sponsored assets.

III. Writing Off Work in Progress/Construction in Progress (WIP/CIP)

Equipment work in progress and/or construction in progress costs that have been on the general ledger for an extended period of time (i.e., more than one year) where the project has been either abandoned or significantly altered from its original plan must be written off. A loss is recorded to object code 8722, "Loss on sale/disposal of capital asset."

IV. Assets No Longer in Service

If assets are no longer in service, they must be written down to their estimated remaining value or, in some cases, written off entirely. This write-down or write-off is accounted for in the same manner described in the "Sales of assets" and "Demolition" sections of this document.

V. Accounting for Fully Depreciated Assets

Assets that are fully depreciated (i.e., the net book value of the historical cost less accumulated depreciation is zero) **and** that are no longer in use must be written off. This process is performed at the School or unit level in Oracle Fixed Assets.

VI. Physical Inventories

Discrepancies noted during a physical inventory are to be recorded in conjunction with the completion of the physical inventory. Any inventory discrepancies noted during the inventory must be written off in Oracle Fixed Assets. The corresponding loss will be recorded to object code 8722, "Loss on sale or disposal of capital asset." In addition, any assets that are found to be impaired must be written down to their estimated remaining value.

VII. Disposition

Disposition is the process of removing equipment from inventory that has no further University use. Any piece of capital equipment that no longer functions or for which Harvard has no further use must be physically disposed of and removed from University records. *The Oracle Fixed Assets system refers to dispositions as "retirements."* Disposition is required when equipment is:

- No longer in use nor expected to have future use;
- No longer the responsibility of Harvard University (e.g., transferred or sold); or
- No longer part of the inventory of active items

Equipment purchased with federal or other sponsored funds are often subject to sponsor-specific disposition restrictions and cannot be disposed of without prior approval. The Equipment Disposal Request Form is required for disposition of equipment.

If equipment is being retained for parts only, the status in Oracle Fixed Assets must be changed to "scrap."

Tags must be physically removed from equipment upon disposition (but NOT upon impairment).

Special Note: equipment disposition requires careful coordination with multiple offices and may have hazardous waste, sensitive data restrictions, and other concerns. Contact your area equipment manager or facilities manager for guidance.

VIII. Retirement

Retirement is the process by which capital equipment owned by Harvard or for which Harvard is responsible is permanently removed from the University's inventory records. Retirements must be processed in the event of physical disposal, loss or theft, external sale or transfer, trade-in, donation, salvage, or return of capital equipment. Any piece of capital equipment which has ceased to function or for which the University has no future use should be physically disposed of and must be updated in Oracle Fixed Assets to reflect accurate valuation and be removed from any inventory records.

It is the responsibility of the faculty member or department to request approval and disposition instructions from the area equipment manager before capital equipment is removed from University premises and oversight. Any transaction involving a sale, trade-in, or cross-school or unit transfers of capital equipment must also be coordinated with the Financial Accounting and Reporting office (FAR).

1. Retirement of Computer Equipment
   Massachusetts law and Harvard policy require that electronic media containing confidential information be destroyed or thoroughly erased so that such information cannot be read or reconstructed. In addition, Harvard's license does not permit the transfer of operating systems or other software outside the University. Applications that provide for secure disk erasure and meet these requirements are available for Windows computers (e.g. proposed FAS standard CMRR Secure Disk Erase). A secure file erasure function is built into Mac OSX. See Secure Recycle of University Computers and contact your HUIT or your local Computer Resources or IT Department for additional guidance.

2. Retirement of Sponsor-Funded or Sponsor-Titled Equipment. See Appendix A and D.

IX. Impairment

If assets have been permanently impaired, whether by damage, neglect, technological obsolescence, renovating or demolishing a building, or a change in the economic landscape, such that future expected cash flows from the assets are less than their net book value on the balance sheet, the assets must be written down to their estimated remaining value or, in some cases, written off entirely. Account for this write-down or write-off in the same manner as described in the "Sales of assets" and "Demolition" sections of this document. Partially impaired equipment assets remain part of the University's physical inventory. The Oracle Fixed Assets system refers to impairments as "partial retirements."

Impairment is defined as the condition that exists when the carrying amount of a long-lived asset exceeds its fair value. Assets should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The following are examples of such events from ASC 360-10 Property, Plant and Equipment:

1. A significant decrease in the market price of a long-lived asset (asset group)
2. A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition
3. A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator
4. An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group)
5. A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group)
6. A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term *more likely than not* refers to a level of likelihood that is more than 50 percent.

Common reasons for impairment include, but are not limited to: missing equipment noted during a physical inventory; damaged or obsolete equipment disposed of; and building renovations of space that impair prior construction projects.

X. Timing of Recording

Account for disposals due to sale or demolition and transfers of assets in the month of the disposal or transfer, and no later than quarter end.

XI. School/Unit Review

Buildings must be reviewed for impairment on a quarterly basis, or at any time that a capital project commences but no later than approval of a Construction Authorization for potential impairment impact plus a full review at year end, in accordance with the Internal Controls Matrix.

Equipment assets must be reviewed for impairment/obsolescence during the course of the bi-annual physical inventory.

Child assets must be reviewed for impairment/retirement upon the impairment/retirement of a Parent Asset. However, OFA will not notify the user that there are associated child assets at the time of the transaction on the Parent. The Asset Workbench must be reviewed to identify any related assets.

Examples of Proper Coding for Disposals and Impairments

Example 1

On January 15, 20X1, HRES (school/unit 580) sold a building for $1,000,000 to an external party. The building had an original cost of $700,000 and accumulated depreciation of $210,000 as of January 15, 20X1. This building was debt-financed with a loan for $450,000 which was outstanding at the time of disposal.

The University begins depreciation in the month the asset was purchased or placed into service, with a full month of depreciation expense recorded at the month-end close. When an asset is disposed, no depreciation expense is recorded in the month of disposal. In addition, since this asset predated the conversion to Oracle Fixed Assets, a full year of depreciation was taken in the year the building was acquired.

The sale will result in the following transactions in the GL, across the University:

ACCOUNTING FOR PROPERTY DISPOSAL		HRES - tub 580							CENTRAL - tub 640			UNIVERSITY
		BEG BAL	(A)	(B)	(C)	(D)	(E)	TOTAL	BEG BAL	(C)	TOTAL	TOTAL
0375	Due to/from Core - *automated entry*	-	1,000		(455)			545	(450)	455	5	550
1200	Facil Bldgs PIS	700		(700)				-			-	-
1630	CO^Facil Bldg Accumulated Depreciation	(210)		210				-			-	-
	Plant Assets	490	-	(490)	-	-	-	-	-		-	-
3000	*Plant Debt* - CO^Pooled Loans, PIS Facil	(450)			450			-	450	(450)	-	-
Assets net of Liabilities		40	1,000	(490)	(5)	-	-	545	-		5	550
Plant Equity - 723001												
3800	CO^Funds Invested in Facil (Plant Equity)	(40)						(40)			-	(40)
8722	Loss on Sale or Disposal of Capital Asset			490		(490)		-			-	-
9301	Transfers to/from Unrestricted Undesignated Balances				(450)		490	40			-	40
	Plant Equity	(40)	-	490	(450)	(490)	490	-	-		-	-
Unrestricted Undesignated fund - 000001												
5772	Gain on Sale, Capital Asset^Miscellaneous Income,		(1,000)			490		(510)			-	(510)
8722	Loss on Sale or Disposal of Capital Asset							-			-	-
7401	Facilities Placed in Service Loan Pool Interest Expense				5			5		(5)	(5)	-
9319	Trsf to/from Funds Invested in Plant-Debt Pymt-Write off of Retired Assets				450			450			-	450
9320	Transfers to/from Funds Invested in Plant - PIS - Purchases/Sales/Adjs						(490)	(490)			-	(490)
	Unrestricted funding activity	-	(1,000)	-	455	490	(490)	(545)	-		(5)	(550)
Net Assets		(40)	(1,000)	490	5	-	-	(545)	-		(5)	(550)

(A) Record Sale and Cash Receipt

HRES deposits a check received via a Credit Voucher

Tub 580	5772	Gain on Sale, Capital Asset^Miscellaneous Income, Exter	$ (1,000)	*000001*

(B) Remove asset and accumulated depreciation

FAR "retires the asset from Oracle Fixed Assets. Entries are automatically generated.

Tub 580	1200	Facil Bldgs PIS	$ (700)	
Tub 580	1630	CO^Facil Bldg Accumulated Depreciation	$ 210	
Tub 580	8722	Loss on Sale or Disposal of Capital Asset	$ 490	*Plant Equity fund*

(C) Pay down debt

OTM processes entry to pay off associated debt principal and interest.

Tub 580	3000	CO^Pooled Loans, PIS Facil	$ 450	
Tub 640	3000	CO^Pooled Loans, PIS Facil	$ (450)	
Tub 580	7401	Facilities Placed in Service Loan Pool Interest Expense	$ 5	*000001*
Tub 640	7401	Facilities Placed in Service Loan Pool Interest Expense	$ (5)	
Tub 580	9319	Trsf to/from Funds Invested in Plant-Debt Pymt-Write off	$ 450	*000001*
Tub 580	9301	Transfers to/from Unrestricted Undesignated Balances	$ (450)	*Plant Equity fund*

(D) Reclassify Loss on Disposal to Gain on Disposal

FAR processes entry to correctly reflect gain in disposal.

Tub 580	5772	Gain on Sale, Capital Asset^Miscellaneous Income, Exter	$ 490	*000001*
Tub 580	8722	Loss on Sale or Disposal of Capital Asset	$ (490)	*Plant Equity fund*

(E) Plant Equity balance is transferred to unrestricted net assets.

FAR processes this entry.

Tub 580	9301	Transfers to/from Unrestricted Undesignated Balances	$ 490	*Plant Equity fund*
Tub 580	9320	Transfers to/from Funds Invested in Plant - PIS - Purchas	$ (490)	*000001*

Example 2
On October 12, 20X1, HRES (school/unit 580) transferred land and a building to UOS (school/unit 180). The land has a book value of $850,000. The building has a book value of $500,000, and the accumulated depreciation as of September 30, 20X1 was $25,000. As negotiated by the two school/units, UOS agreed to pay HRES an amount of $100,000. This building was not debt-financed, and there are no outstanding loans at the time of disposal.

The related plant equity balance in fund 724001, Funds Invested in Plant PIS as of September 30, 20X1, is 1,325,000 ($850,000+$500,000 - $25,000). Depreciation will be recorded on school/unit 180's books as of October 12, 20X1. The journal entries required to record this internal transfer/sale are as follows:

To transfer the assets and accumulated depreciation from HRES to UOS. These will be system generated entries as the change of ownership of the asset will be changed in Oracle Fixed Assets.

ACCOUNTING FOR TRANSFER OF ASSET WITHIN HARVARD	UNIVERSITY	HRES - tub 580				UOS - tub 180				UNIVERSITY
	BEG BAL	(A)	(B)	(C)	TOTAL	(A)	(B)	(C)	TOTAL	IMPACT
0375 Due to/from Core - *automated entry*	-	1,325	(1,325)	100	**100**	(1,325)	1,325	(100)	**(100)**	-
1230 Land Acquisition	850	(850)			(850)	850			850	-
1200 Facil Bldgs PIS	500	(500)			(500)	500			500	-
1630 CO^Facil Bldg Accumulated Depreciation	(25)	25			25	(25)			(25)	-
Plant Assets	**1,325**	(1,325)	-	-	(1,325)	1,325			1,325	-
Assets net of Liabilities	**1,325**	-	**(1,325)**	**100**	**(1,225)**	-			**1,225**	-
Plant Equity - 723001										
9320 Transfers to/from Funds Invested in Plant - PIS - Purchases/Sales/Adjs	(1,325)		1,325		1,325		(1,325)		(1,325)	-
Plant Equity	(1,325)	-	1,325	-	1,325	-	(1,325)	-	(1,325)	-
Unrestricted Designated fund - 000002										
9302 Transfers to/from Unrestricted Designated Balances				(100)	**(100)**			100	**100**	-
Unrestricted funding activity	-	-	-	(100)	(100)	-	-	100	100	-
Net Assets	**(1,325)**	-	**1,325**	**(100)**	**1,225**	-	**(1,325)**	**100**	**(1,225)**	-

(A) Record transfer of assets and accumulated depreciation from HRES to UOS.
These are system generated journal entries, as the change of ownership of the asset will be changed in OFA

Tub 580	1230 Land Acquisition	$ (850)
Tub 580	1200 Facil Bldgs PIS	$ (500)
Tub 580	1630 CO^Facil Bldg Accumulated Depreciation	$ 25
Tub 180	1230 Land Acquisition	$ 850
Tub 180	1200 Facil Bldgs PIS	$ 500
Tub 180	1630 CO^Facil Bldg Accumulated Depreciation	$ (25)

(B) Plant Equity balance is transferred from Tub 580 to Tub 180
FAR processes this entry.

Tub 580	9320	Transfers to/from Funds Invested in Plant - PIS - Purchases/	$ 1,325	*723001*
Tub 180	9320	Transfers to/from Funds Invested in Plant - PIS - Purchases/	$ (1,325)	*723001*
Tub 580	0375	Due to/from Core - automated entry	$ (1,325)	
Tub 180	0375	Due to/from Core - automated entry	$ 1,325	

(C) To record the negotiated payment of $100,000

Tub 580	9302	Transfers to/from Unrestricted Designated Balances	$ (100)	*000002*
Tub 180	9302	Transfers to/from Unrestricted Designated Balances	$ 100	*000002*
Tub 580	0375	Due to/from Core - automated entry	$ 100	
Tub 180	0375	Due to/from Core - automated entry	$ (100)	

Example 3

On February 12, 20X2, FAS (school/unit 370) disposed of a piece of scientific equipment. The equipment had been purchased in January 20X1 for $40,000. The equipment was disposed of as it was no longer functioning. This piece of equipment was not debt-financed.

All equipment data is housed in Oracle Fixed Assets, as such, FAS's Fixed Asset Manager will need to retire the equipment in Oracle Fixed Assets. Oracle Fixed Assets will automatically calculate the net book value and the corresponding loss on disposal. This asset was placed in service in January 20X1, using an 8 year useful life with depreciation starting in the month of purchase. Depreciation is not calculated in the month of disposal. The net book value of this asset is $40,000 less 13 months of depreciation, $5,417, for a total of $34,583.

The journal entries generated by Oracle Fixed Assets after FAS's Fixed Asset Manager retires the asset in the system are automatically posted.

ACCOUNTING FOR EQUIPMENT DISPOSAL		**FAS**		
		BEG BAL	**(A)**	**TOTAL**
1003	Equipment, Scientific,	40,000	(40,000)	-
1181	Equipment, Scientific, Nonsponsored,			
	Accumulated Depreciation	(5,417)	5,417	-
	Equipment Assets	**34,583**	(34,583)	-
Assets net of Liabilities		**34,583**	**(34,583)**	-
Plant Equity - 724001				
37XX	Fund Balance Forward	(34,583)		(34,583)
8722	Loss on Sale or Disposal of Capital Asset		34,583	34,583
	Plant Equity	**(34,583)**	34,583	-
Net Assets		**(34,583)**	**34,583**	-

(A) **Remove asset and accumulated depreciation and recognize loss on disposal**

FAS retires the asset from Oracle Fixed Assets. Entries are automatically generated.

FAS	1003	Facil Bldgs PIS	$ (40,000)	
FAS	1181	CO^Facil Bldg Accumulated Depreciation	$ 5,417	
FAS	8722	Loss on Sale or Disposal of Capital Asset	$ 34,583	*724001*

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, schools/units must complete the loan information in the CAPS system.

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. See General Rules for Capitalization.

Buildings:

The CAPS Office administers all capital projects and requires schools/units to complete and submit the following forms: the Project Proposal (PP), the Construction Authorization (CA), and the Construction Close-Out Request (CCR) and, for debt-financed capital projects, the loan application. All forms are available through the CAPS website. After the school or units submits each form, 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:

- Capital Planning at Harvard (CPATH) is an automated, web-based, and centralized system that collects and reports on the University's annual five-year capital plan each fall. Each spring, schools and units submit a one-year capital budget for Corporation authorization. CPATH provides Schools/Units the opportunity to manage individual project information in their capital plan portfolio throughout the year. All Capital Projects are entered into CPATH as the first step in the planning and approval processes.
- School or unit completes the **Project Proposal (PP) form** and forward it to CAPS for approval. The school or unit 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 three 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 an additional 3% of total project costs for schematic design funding
    - After the revised PP, a second revised PP for up to an additional 12% of total project costs for the remainder of design funding

- School or unit 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 or purchasing long-lead time items). FAR transfers the funding to the CIP activity as directed by the CA. School/units 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 PPE Policy, Section IV), school/units 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 place in service (PIS) assets, 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:

- School/Units complete the Project Proposal (PP) form and forward it to CAPS for approval. The school/unit 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.
- School/Units 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), school/units must complete and send 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, if needed, for the total amount of spending incurred, and transfers equity if necessary.

  When requesting a loan term for a componentized building, school/units 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. School/units 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 for helpful information, including a Loan Term Calculator Template.

Overfunded/underfunded capital projects (internally funded):

It is the responsibility of each school or unit 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, School/unit 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 school or unit's choosing, as indicated by the school or unit on the Construction Close-Out Request. For donor funds, the funds MUST go back to the gift fund.

- 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, "CIPInterest." 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 school/unit (e.g., if two school/units split the cost of a building). In such cases, the school/units must agree prior to the start of the project which school/unit will have the asset on its balance sheet (the owning school/unit) and which school/unit will fund the project but will NOT have the asset on its balance sheet (the supporting school/unit). Assets cannot be split between school/unit balance sheets. If the project is debt-financed, the loan follows the asset and will be recorded on the owning school/unit's balance sheet along with the asset. The plant equity also follows the asset and is recorded on the owning school/unit's balance sheet. If the supporting school/unit is debt-financing the project, an interschool/unit loan is recorded in object code 3062, "CO^INTERTUB debt obligation, PIS, Other." As a result, the loan is appropriately reflected on the supporting school/unit's balance sheet. OTM records the loan and interschool/unit debt obligation.

Capital projects with sponsored funding:

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

Interschool/unit leasehold/tenant improvements:

In the case of leasehold/tenant improvements where one school/unit owns the underlying asset (the building) and another school/unit is paying for improvements to the space, the assets are recorded on the balance sheet of the school/unit paying for the improvements, through the use of object code 1240, "Capital Leasehold Improvements." The school/unit 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, school/units must submit a revised PP or CA 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, school/units 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 ADS. 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. School/units are responsible for monitoring bridge funding and for making the accounting entries needed to repay funds that provided initial funding.

Plant and equipment equity accounting:

The University maintains separate sets of accounts that hold the assets, liabilities and net assets related to plant (facilities) and equipment. Plant/equipment assets minus plant/equipment liabilities must equal plant/equipment net assets; this ensures that all investments in plant/equipment are either debt financed or funded. FAR verifies each month that these accounts are in balance. Plant/equipment net assets are also collectively referred to as "plant/equipment equity." As assets are acquired, they are debited to the plant and equipment asset object codes.

Plant liabilities and/or net assets related to these plant assets must then be credited, so that the set of accounts remains in balance.

Where an asset acquisition is funded from net assets (i.e., not debt-financed), a transfer must be recorded charging a school/unit's operating funds and crediting the school/unit's plant/equipment net assets. This entry is recorded monthly via a mass allocation process.

For items that are debt-financed, plant/equipment debt equivalent to the plant/equipment assets is recorded on the school/unit's balance sheet. As the debt principal is repaid throughout the life of the loan, an equivalent amount is transferred from the school/unit's operating funds to the school/unit's plant/equipment equity. Where debt is used to fund an asset acquisition, the Office of Treasury Management (OTM) records the appropriate funding entries.

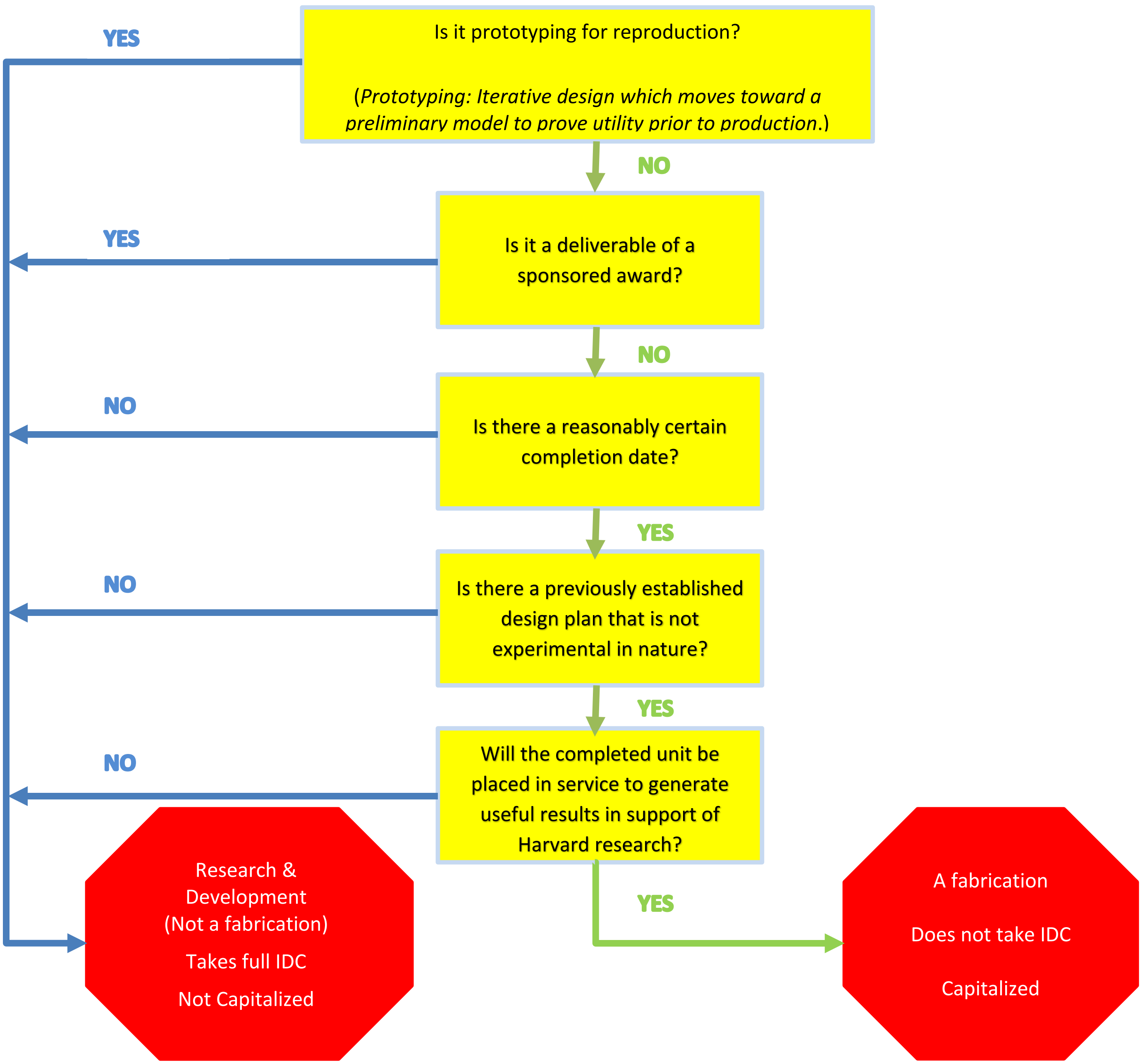
As assets are depreciated, the charge for depreciation expense is recorded in the plant/equipment set of accounts as a charge to plant/equipment equity, with an offsetting credit to accumulated depreciation.

Appendix F: Fabrications Flowchart

Does the equipment I am building qualify for capitalization?

A project to build an item that:

- is non-expendable, tangible property, physically constructed by Harvard personnel;
- has aggregated capitalizable costs of at least $5,000;
- have an expected completion date;
- will have a useful life of one year or more;
- is made up of parts and materials combined or manufactured to work together as a free-standing unit;
- and is not simply a multi-component assembly of separate items.



Appendix G: Definitions

Acquisition Cost: is the cost of an asset including the cost to ready the asset for its intended use. The acquisition cost of capital equipment includes the purchase price of the item, the cost of any upgrades, attachments, accessories, or auxiliary apparatus necessary to make it usable for purpose for which it is required (e.g., costs necessary to obtain and prepare the asset for use, shipping costs, taxes, protective in transit insurance, and installation. The acquisition cost of donated assets is the fair market value at the time of donation. Acquisition cost does not include repairs, service contracts, or supplemental warranties.

Additional Functionality: an increase in equipment's condition beyond its current state or an increased range of operations, increase equipment's useful function or service capacity, or improve the quality of the service(s) delivered through equipment's use.

Alteration: change to the internal structural arrangement or other physical characteristics of an existing asset so that it may be effectively used for a newly designated purpose.

Area: includes all Harvard University schools, tubs, local units, affiliate institutions, allied institutions, entities and University-wide initiatives.

Betterments: See Upgrades.

Capital Equipment: moveable, tangible property with a useful life of one year or more, and a per-unit acquisition cost of $5,000 or more, OR equipment fixed to the building with a useful life of one year or more and a per unit acquisition cost of $100,000 or more if individually purchased (no threshold if part of a larger construction project). Capital equipment includes, for example, scientific equipment, fabrications, software, and donated assets. Capital equipment is recorded on the University's general ledger as a capital asset and expensed to the capital equipment object code.

Capital Leases: See Accounting for Leases Policy

Collections: works of art, historical and other treasures, or similar assets that meet all of the following criteria: (a) they are held for public exhibition, education, or research in furtherance of public service rather than financial gain, (b) they are protected, kept unencumbered, cared for, and preserved, and (c) they are subject to an organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections.

Componentized buildings: in research buildings, asset components are grouped and depreciated in separate categories with differing useful lives. These components include the shell, roof, finishes, fixed equipment acquired in the course of a construction project.

Construction Authorization Form (CA): See Oracle CAPS system.

Construction Close Request Form (CCR): See Oracle CAPS system.

CPATH – Capital Plans Projects: Capital Planning at Harvard (CPATH) is an automated, web-based, and centralized system that collects and reports on the University's annual five-year capital plan. CPATH also provides Schools/Units the opportunity to manage individual project information in their capital plan portfolio throughout the year. All Capital Projects are entered into CPATH as the first step in the planning and approval processes.

Disposal: represents the physical removal of an asset from Harvard oversight and its removal from OFA. See also Retirement.

Enhancements: See **Upgrades.**

Fabrication: Fabrications consist of non-expendable, tangible property, physically constructed by Harvard personnel

Fixed equipment: includes assets that are bolted to or part of the operations of a building (i.e. elevators, coolers, boilers, etc.). It is different from moveable furnishings and equipment (MFE), as defined below.

Government-Furnished Property (GFP): equipment purchased by the government and subsequently delivered to or made available to the University and where the government retains title.

Government-Titled Equipment (GTE): equipment purchased by Harvard for which title stays with the federal government.

Impairment: The condition that exists when the net book value an asset exceeds its fair value.

Improvements: See Upgrades.

Integral Costs: include any material or supply that becomes a permanent part of an asset, any internal service centers charges, and any external shop fees. Harvard labor costs which are outside of a service center cannot be capitalized and cannot be charged to the WIP object codes.

Land Improvements: Enhancements or alterations to a plot of land to make the land more usable or visually appealing. Examples include driveways and parking lots, landscaping, fences, lighting, sewer systems, etc.

Large Schools/Units: Following the Harvard Financial Accounting and Reporting (FAR) quarterly review definition, FAS, HMS, HBS, and SPH are considered large units.

Lease Agreements: An agreement entered into by the University, both as a lessee and as a lessor.

Leasehold Improvements: Enhancements paid for by a tenant to leased space. Examples include Interior walls and ceilings, electrical and plumbing additions, built-in cabinetry, etc.

Maintenance: costs associated with recurring work required to preserve or immediately restore a facility to such condition that it can be effectively used for its designated purpose (i.e., not a new purpose).

Moveable furnishings and equipment (MFE): a type of equipment that is usually incorporated into a construction or renovation project, such as moveable walls, audio-visual equipment, etc. See CAPS Policies & Guidelines Wiki Page

Multicomponent Equipment: individual components of commercially-available equipment or materials requisitioned together that are assembled to operate as a system (e.g., a microscope, camera, laser, optics, etc.). Component pieces can be purchased from one or more vendors.

Off-Campus: Facilities not owned or rented by Harvard or to which facilities costs are not directly charged.

Phased Projects: projects that have separate and distinct phases that are independent of one another (i.e., one phase can be placed in service before other phases begin or end).

Place In Service (PIS): the date at which an asset is available and ready for its intended purpose. Placing an asset in service initiates depreciation for that asset.

Preservation and Restoration: costs associated with maintaining special assets (e.g., works of art) or returning them to a level of quality as close to their original state as possible.

Project Proposal Form (PP): See Oracle CAPS system.

Research and Development Costs: Costs incurred related to search or critical investigation aimed at discovery of new knowledge with the hope that such knowledge will be useful in developing a new product or service (referred to as product) or a new process or technique (referred to as process) or in bringing about a significant improvement to an existing product or process.

Retire/retirement: the process by which capital equipment owned by Harvard or for which Harvard is responsible is impaired or disposed of from the University's inventory records. Retirements must be processed in the event of physical disposal, loss or theft, external sale or transfer, trade-in, donation, salvage, or return of capital equipment. A retirement is processed when an asset 1 – is no longer in service for its intended use,
2 – is partial or fully impaired, or 3) when an asset is disposed of (first step in disposal process)

Small School/Unit: Following the Harvard Financial Accounting and Reporting (FAR) quarterly review definition, all units or schools EXCEPT FAS, HMS, HBS, and SPH are considered small units.

Upgrades: (also known as betterments, enhancements, or modifications) additions to an item of capital equipment that adds new functionality or extends the useful life by one year or more. Replacement parts or repairs are not considered upgrades.

Useful Life: expected life of an asset for which it is expected to be utilized for its intended use

Work in Progress (WIP): an equipment asset still under construction, not yet placed in service or not yet producing intended results.