



Financial Management of Property, Plant and Equipment 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](#)



HARVARD UNIVERSITY FINANCIAL POLICY

Responsible Office: Financial Accounting and Reporting

Revision Date: 7/01/2018

<http://policies.fad.harvard.edu>

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 fixed 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 performing 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 $\geq \$5,000$ or for fixed equipment $\geq \$100,000$)
- 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 $\geq \$5,000$)
- 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 charged to the WIP object codes. 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 and charged to the WIP object codes.

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 functionality 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				
AT PURCHASE	CAPITALIZE			ALWAYS EXPENSE
	Land (all amounts)	Building (and improvements) (if total project costs >= \$100,000)	Moveable Furnishings + Equipment (if >= \$5,000)	
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				ALWAYS EXPENSE
	Land (all amounts)	Land	Building (and improvements) (if total project costs >= \$100,000)	Moveable Furnishings + Equipment (if >= \$5,000)	
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 costs of employees whose services are 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				ALWAYS EXPENSE
	Land (all amounts)	Land	Building (and improvements) (if total project costs >= \$100,000)	Moveable Furnishings + Equipment (if >= \$5,000)	
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