

HARVARD
FINANCIAL ADMINISTRATION



***Financial Management of Property,
Plant and Equipment (PPE) Policy***

Office of the Controller

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Financial Policy Website: <https://policies.fad.harvard.edu/>

Financial Policy Office

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POLICY QUICKVIEW

Responsible Office:
Financial Accounting and Reporting

Date First Effective: 2/15/2007

Revision Date: 7/1/2018

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[Summary of Policy Changes for 7/1/2018](#)

APPENDICES

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Financial Management of Property, Plant and Equipment

This policy establishes the proper methods to account for facilities and equipment, including capitalization, depreciation, disposals and impairments, and various funding sources.

Keywords: facilities, equipment, capitalization, depreciation, disposals, mpairments, sponsored equipment, upgrades, improvements, fixed assets, property, plant, fabrication, building, land, Oracle assets, inventory, componentize, moveable furnishings and equipment, MFE

[Full Policy](#)

Appendices

[Appendix A: Summary of Policy for Capital Equipment in Schools with Sponsored Research](#)

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Agenda

- PPE Policy Overview
- What is an asset?
- What should be capitalized?
- What cannot be capitalized?
- Rules for capitalizing
- Placing projects in service
- Closing projects
- Inventory
- Account for disposition, retirement or impairment of equipment



PPE Policy Overview

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 must be periodically inventoried for impairment or possible write-off in accordance with Generally Accepted Accounting Principles (GAAP) and regulatory requirements.

- **Oracle Fixed Assets is the System of Record** for Property, Plant and Equipment (PPE). All schools and units must input and maintain PPE assets in Oracle Fixed assets.
- Additional requirements and processes apply for those schools and units with sponsored research. See [Appendix A](#) of the PPE policy.
- Equipment for which Harvard does not hold title such as government-titled equipment and government-furnished property or faculty transferred equipment may be required to be reported in Oracle Fixed Assets for inventory tracking purposes. The assets would be recorded with a zero value but would be appear on Harvard's inventory. See [Appendix A](#) of the PPE policy.



What is An Asset?

A capital asset is something of value which has a useful life longer than one year and that Harvard benefits from, or has use of, for that period.

The value of the asset doesn't leave Harvard and rather than expensing the value all at once, it is depreciated over a period of time. Depreciation is an accounting term that estimates the decrease in value of an asset for the estimated useful life of that asset.



What Should be Capitalized?

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.

Lease Agreements - Certain lease agreements may qualify for capitalization (see [Lease Accounting Policy](#))

1. Generally, lease term must be 3 years or more, and
2. Have an annual lease year payment >\$1,000,000/year or a cumulative spending >\$10,000,000

Leasehold Improvements

Generally, improvements to leased premises **are** capitalized if they meet the capitalizable criteria and qualify as alterations, renovations, renewals or replacements. These improvements are depreciated over the remaining life of the external lease plus any extensions, or 35 years, whichever is shorter.

If another Harvard entity assumes the space before a leasehold improvement is fully depreciated, then the leasehold improvement is transferred to the new occupant and depreciated over the remaining life. If the new occupant renovated the space within the first six months, the impairment would be on the original school or units books.



What Should be Capitalized?

Multicomponent Equipment

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.) Components parts must be accumulated and capitalized if, at the time of requisition, the cost is \$5,000 or more.

New for 7/1/18

- Fixed equipment valued at \$100,000 or more and not linked to a CAPS project may be capitalized.
- Certain land improvements may be capitalized and a new object code 1230 has been created.
- Standard useful lives have been added for audio visual equipment (5 years) and IT networking and infrastructure (15 years).
- Upgrades (also known as Betterments or Enhancements) have a new minimum threshold of \$5,000. In some instances, additional costs to capitalized equipment may represent an upgrade and may be capitalized as such. Upgrades 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).



Fabrications

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



Fabrications



What Should be Capitalized? (continued)

Acquiring land or buildings and land or building improvements. Some examples include:

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



What Cannot be Capitalized? (continued)

Cannot capitalize repair and maintained expenses associated with recurring work required to preserve or immediately restore a facility or piece of equipment to such condition that it can be used for its designed purpose. Some examples of costs that cannot be capitalized 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
- Preservation and restoration with maintaining special assets (e.g., works of art)

Cannot capitalize works of art, collections and books purchased as part of a collection or held for exhibit.

- Works of art purchased for the sole purpose of furnishing an office should be capitalized if \$5,000 or more.



Capitalizing Rules

- Costs for assets are accumulated through accounts payable transactions (HCOM, Concur and WIP for Corporate Card) or internal billing charges.
- PCard may not be used for purchased equipment, furnishing, software or vehicles.
- Follow vendor selection requirements when using federal funds. See the [Procurement Policy](#).
- Code movable equipment, furnishings, software and vehicles costing \$5,000 or more to object codes 6800-6869.
- Additional costs such as freight, insurance, installation and assembly are capitalizable.
- 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.



Placing Projects In Service

Fabrications projects must be placed in service (PIS) when:

- the asset has been sufficiently developed and is generating the intended useful results AND
- the aggregate project costs meet the capitalization threshold.

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. If the completed fabrication does not meet the capitalization threshold it must be fully expensed.

Building, land and improvement projects require a formal project proposal, construction authorization and construction close process completed through the CAPS automated system.

- 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,
- 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.



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.

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.

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 code until the project is 100% complete.



Closing a Project

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.

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.

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. See [Appendix C](#) for standard useful lives. Different lives, where applicable, can be used if justified and approved by FAR.



Inventory

Land, Buildings and Leaseholder 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.

Equipment

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. 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.

Physical Inventory Required	Original Price	Required By
Due by June 30 every 2 years starting in FY16 FY18 FY20 FY22, etc.	≥ \$25,000	All schools, areas, or units
Due by June 30 every 2 years starting in FY16 FY18 FY20 FY22, etc.	≥ \$5,000	All schools, areas, or units with federally-sponsored research must perform inventory on all equipment.



Equipment Inventory

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,

Areas must affix a unique identification tag to capital equipment. 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. See [Appendix A](#).

- the source of funding,
- who holds title,
- the acquisition date and cost,
- the location,
- use and condition status,
- any ultimate disposition data.



Equipment Inventory (continued)

Movement of Equipment: Equipment that will be moved from its recorded location for a period longer than 30 days must be registered with the area/school/unit-level equipment manager. Additionally, if equipment is moving to a location outside of Harvard premises, (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 Harvard or at an off-campus site. Schools must maintain records of equipment that allow it to be located in a reasonable amount of time (i.e., 30 days). If the equipment is offsite, a picture of the equipment and tag along with a confirmation from the offsite responsible party confirming the existence.

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.



Account for Disposition, Retirement and Impairment

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.

- 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.
- See [Disposal Request Form](#)



Account for Disposition, Retirement and Impairment (continued)

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.

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.

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.

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



Reference Materials

Financial Management of Property, Plant and Equipment

- [Appendix A: Summary of Policy for Capital Equipment in Schools 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](#)

Procurement Policy

Software Policy (Currently under revision - *previously the Accounting for Internally-Developed Software Policy* – See highlights on next few pages.

Training Portal - Fixed Assets Training Catalog

Fixed Assets Accounting

Forms – Includes Offsite Equipment Notification, Untaggable Asset, Place in Service Notification, Disposal Request Form

Contact [FAR Fixed Assets@harvard.edu](mailto:FAR_Fixed_Assets@harvard.edu) with questions.



Software Policy Highlights

Category	Current	New	Effect	Dollar Impact
Scope of the Policy	Policy focused on internally developed software only	Policy now covers all software, including internally developed and SaaS solutions, and cloud computing	Clarification around what costs are capitalized and what are expensed within the full realm of software	n/a
Capitalization requirements	\$ threshold - Must be capitalized if >\$1M in costs, but schools may choose to capitalize if it falls in the range of \$250,000-\$999,999	Must be capitalized if \$500,000+ in costs. Anything under this threshold must be expensed.	All software \$500k+ will be capitalized, as opposed to option from \$500K - \$1M.	Software over \$500K will be capitalized that previously might have been expensed (Tub option). No retroactive impact.
	Useful life - Capitalized only if the software has an estimated useful life of 3 years or more	Software must be capitalized if it has an estimated useful life of at least 1 year, which matches the Financial Management of Property, Plant and Equipment Policy.	All software with a useful life of 1 year+ will be capitalized	Software will qualify for capitalization that previously would have been expensed. No retroactive impact.
SaaS & Cloud Computing capitalization	Silent, not addressed in current policy	All SaaS and cloud computing software in order to be capitalized have to pass 2 tests: (a) Have contractual right to take possession of the software without significant penalty (b) It is feasible to run the software on its own hardware	Some SaaS and cloud computing software will be capitalized and depreciated over the life of the contract	Additional capitalization as more SaaS and cloud computing software packages are purchased



Software Policy Highlights (continued)

Category	Current	New	Effect	Dollar Impact
Useful life	Software was assigned a 4 year useful life	Option to enter the appropriate useful life. It is still recommended that a 4 year useful life is generally appropriate, but there other factors should be considered when assigning a useful life, specifically around the SaaS solutions.	More flexibility in choosing an appropriate useful life for software	Potential to accelerate or decelerate depreciation expense on the assets currently being depreciated.
Purchased software	Silent on purchased software	References the capitalization requirements in the Financial Management of Property, Plant and Equipment Policy. Details out specifics on what software/license costs should be capitalized vs expensed	Increased clarity	Limited impact - most tubs were following the existing capitalization requirements for equipment already
Provided Guidance on coding for SaaS solutions that need to be expensed, which did not pass the test for capitalization or monthly usage fee	Silent, not addressed in current policy	Provided definition, and use cases for object codes 8071, 8074, 8075, 8076	Increased clarity	n/a



Software Object Codes

Capitalizable Software Application of Licenses

Description	How to Use	Object Code
Software, Non-Sponsored^Equip >= \$5,000	Purchases of computer software and databases that meet the capitalization requirement. This code is used for purchases from non-sponsored funds only. One time upgrade.	6815
Software, Sponsored^Equip >= \$5,000	Purchases of computer software and databases that meet the capitalization requirement. This code is used for purchases from sponsored funds only.	6816

Expensed Software Object Codes

Expensed Software Object Codes			
Description	How to Use	Old Object Codes	Object Codes to Use FY18 Onward
Internal & Data Processing, Data Conversion, Word Processing	<ul style="list-style-type: none"> Expenses for internal/on premise datacenter hosting services (debit to department using the service) For FEDERAL SPONSORED FUNDS (100000-199999) only services provided by an internal Harvard vendor should be charged here. Data conversion and processing/analysis 		8071
Cloud Hosting Services (e.g., Fieldglass/HCOM)	<ul style="list-style-type: none"> Expense for internally-billed cloud customers (debit to department using the service, normally HUIT) Use to pay external vendors for monthly services. 	8070,8071,8090,8092,8096,8160,8250	8074
Cloud Hosting Services, Cost of Goods Sold Used by HUIT	<ul style="list-style-type: none"> Expenses related to support cloud hosting services offered to other departments. HUIT is the primary user of this object code and tracks Amazon Web Services, Microsoft Azure, etc. 	8091	8075
Cloud Hosting Services, INTERTUB^Data Processing + Conversion, Word Processing Svcs	<ul style="list-style-type: none"> Revenue for internally-billed Cloud Customers (credit to HUIT or other department offering a service)) 	8252	8076



Common Object Codes

6710 Computer Software <\$5000, GENERAL	Purchases of computer software and databases with unit cost below the capitalization limit, or with a contractual term or useful life of less than two years.
6711 Packaged Software, INTERTUB Sales of^Computer Software <\$5000	
6713 SW Media, INTERTUB Sales of^Computer Software <\$5000	
6714 SW License Sales, INTERTUB^Computer Software <\$5000	
6720 Computer Software <\$5000, Cost of Goods Sold, GENERAL	
6722 Software Licenses^Computer Software <\$5000, Cost of Goods Sold	
6723 Software Media^Computer Software <\$5000, Cost of Goods Sold	
6724 Software Packages^Computer Software <\$5000, Cost of Goods Sold	
6740 Equipment, Furniture+Fixtures, Budget Only	
6750 Computer Hardware <\$5000, GENERAL	Purchases of computer systems with unit cost below the capitalization limit.
6760 Noncomputer Equip, Furniture+Fixtures <\$5000, GENERAL	Purchases of furniture, fixtures and noncomputer equipment with unit cost below the capitalization limit.
6761 Vehicles^Noncomputer Equip, Furn+Fixt <\$5000	Purchases of vehicles which are not capitalized
6762 Household Furnishings^Noncomp Equip, Furn+Fixt <\$5000	
6763 Safety Equip^Noncomp Equip, Furn+Fixt <\$5000	
6764 Environ Equip^Noncomp Equip, Furn+Fixt <\$5000	
6765 Scientific Equip^Noncomp Equip, Furn+Fixt <\$5000	
6770 Rentals of Equipment, Furniture+Fixtures, GENERAL	Rentals and leases of computers, furniture, vehicles; not to be used for rental of vehicles while traveling
6771 Vehicle^Rentals of Equipment, Furniture+Fixtures	
6773 Rentals, Short Term^Rentals of Equipment, Furniture+Fixtures	
6774 INTERTUB Sales^Rentals of Equipment, Furniture+Fixtures	
6775 INTRATUB Sales^Rentals of Equipment, Furniture+Fixtures	
6780 Fabrications <\$5000, GENERAL	Includes expenses for building equipment where the total cost to fabricate the item is below the capitalization limit.
6800 Equipment, Furn+Fixtures >=\$5000 (Non-Consolidating Tubs Only)	For non-consolidated tub use only.

Expensed Object Codes

6801 Noncomputer Equip, Non-Sponsored^Equip >=\$5000	
6802 Noncomputer Equip, Sponsored^Equip >=\$5000	
6803 Computer, Non-Sponsored^Equip >=\$5000	
6804 Computer, Sponsored^Equip >=\$5000	
6805 Residential Furn+Fixtures, Non-Sponsored^Equip >=\$5000	
6806 Residential Furn+Fixtures, Sponsored^Equip >=\$5000	
6807 Office Furn+Fixtures, Non-Sponsored^Equip >=\$5000	
6808 Office Furn+Fixtures, Sponsored^Equip >=\$5000	
6809 Vehicle, Non-Sponsored^Equip >=\$5000	
6810 Vehicle, Sponsored^Equip >=\$5000	
6811 Non-Sponsored Work in Progress^Equip >=\$5000	
6812 Sponsored Work in Progress^Equip >=\$5000	
6813 Scientific Equipment, Non-Sponsored^Equip >=\$5000	
6814 Scientific Equipment, Sponsored^Equip >=\$5000	
6815 Software, Non-Sponsored^Equip >=\$5000	Purchases of computer software and databases with unit cost equal to or above the capitalization limit, AND with a contractual term or useful life of more than two years. This code is used for purchases from non-sponsored funds only.
6815 Software, Non-Sponsored^Equip >=\$5,000	Purchases of computer software and databases that meet the capitalization requirement. This code is used for purchases from non-sponsored funds only. One time upgrade?
6816 Software, Sponsored ^Equip >=\$5000	Purchases of computer software and databases with unit cost equal to or above the capitalization limit, AND with a contractual term or useful life of more than two years. This code is used for purchases from sponsored funds only.
6816 Software, Sponsored^Equip >=\$5,000	Purchases of computer software and databases that meet the capitalization requirement. This code is used for purchases from sponsored funds only.

Capitalized Object Codes