

HARVARD
UNIVERSITY



Financial Management of Property, Plant & Equipment

Review of changes to the policy

RAS Friday

September 19, 2014

What's Changed... Form & Content

Old Policy

- Main policy with three procedure documents
 - Facilities and Equipment Policy
 - Capitalization and Depreciation Procedures
 - Disposals and Impairment Procedures
 - Funding Procedures

New Policy

- Main policy with 5 appendixes
 - Financial Management of Property, Plant & 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 Funding Procedures



Financial Management of Property, Plant & Equipment

- The policy was refreshed to be in conformity with University Policy standards
- Moves Harvard's general rules for capitalization out of the Capitalization procedure document into the main Policy.
- Gives specific rules for capital equipment that weren't articulated in old policy
- Moved all procedural guidance to appendices and placed all policy statements into main policy



Key Policy Changes

Topic	Old Policy	New Policy
Depreciation Convention	Full year depreciation (All assets receive a full year of depreciation regardless of when asset was acquired or placed in service.)	Starting July 1, Monthly depreciation with a full month of depreciation in the month the asset was purchased or placed in service.
Physical Inventory	Physical inventory at research and sponsored heavy schools of all equipment >\$5k every two years	No change to research and sponsored heavy schools; inventory at all schools for assets > \$25K every two years
Correction of GL Coding	Not addressed in policy. Journal Entries used to adjust transactions	All coding changes involving Asset Object Codes must be processed through an AP Adjustment Form if original source is an AP Transaction. Internal billing charges and other non-AP transactions still require a journal entry.



Financial Management of Property, Plant & Equipment

Topic	Old Policy	New Policy
System of Record	Oracle General Ledger was system of record, utilizing asset tables and 4 separate inventory sub-systems.	Establishes Oracle Fixed Assets as the system of record with no sub-systems.
General Rules for Capitalization	These rules were spread throughout several documents.	Outlines 4 general rules for capitalization: when to capitalize, what costs to capitalize, what is a repair and maintenance charge, and how costs are accumulated.
Specific Rules for Capitalizing equipment	These rules were spread throughout several documents	<p>Articulates specific rules on capital equipment including:</p> <ul style="list-style-type: none"> • Object codes to use • How to handle multi-component equipment • Defines fabrication • Establishes rules for when Harvard does or doesn't retain title • Establishes rules on works of art and collections.

Financial Management of PP&E, Continued

Topic	Old Policy	New Policy
Placing a capital building asset into service	Policy was spread throughout several documents	Clearly articulates when a building project is complete
Place Equipment Assets into service	Policy was spread throughout several documents	Clearly defines when an equipment fabrication should be placed in service and Tub responsibility over reviewing of work in process accounts.
Depreciate Assets	Full year depreciation (All assets receive a full year of depreciation regardless of when asset was acquired or placed in service.) Depreciation was charged only to the Tub level org.	Starting July 1, Monthly depreciation with a full month of depreciation in the month the asset was purchased or placed in service. Tubs can also allocate depreciation to the tub-level org, dept org, or a combination of the two.
Inventory and manage assets	Not addressed in Financial Policy, only included in OSP's Capital Equipment policy	Added to Financial Policy and included new policy for inventory of all University equipment over \$25K every two years. Includes guidance on moveable furniture and equipment as well as tagging equipment.

Financial Management of PP&E, Continued

Topic	Old Policy	New Policy
Correct general ledger coding	Not addressed (previously done through journal entries)	All coding changes involving Asset Object Codes must be processed through an AP Adjustment Form if original source is an AP Transaction. Internal billing charges and other non-AP transactions still require a journal entry.
Accounting for disposals, dispositions, and impairments	Policy was spread throughout several documents	Consolidated the policies around disposals, defined timelines, and adds new language around trade-ins.



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

In an effort to have all University policy related to capital equipment in one centralized place, the Financial Policy has included the Office of Sponsored Research's policy for capital equipment as Appendix A.

Key points:

- This is not a new policy, but now included in the Financial Policy
- All schools that accept federal funding must comply with this policy and are required to employ equipment management practices that meet the requirements of OMB Circular A-110.
- It should also be noted that Oracle Fixed Assets will be the system of record for all assets. Research schools will no longer maintain separate asset sub-ledgers.



Detailed Guidance on Capitalizing vs. Expensing Expenditures – Appendix B

Topic	Old Policy	New Policy
Land, land improvements, buildings, building improvements, capital leases and leasehold improvements	Capital leases were not addressed.	Minor changes were made to this section to allow for better clarity of the policy. Capital leases were added.
Equipment, including work in progress (WIP)	Did not address service center assets	Added additional language around what costs are capitalizable. Clarified WIP accounting and requires review of projects that haven't had activity for at least 6 months. Added additional language around costs incurred on a fabrication after the project was been placed in service. Defines service center assets.
Other Acquisition types	Not addressed in old policy	Establishes guidance on assets transferred to Harvard through faculty transfers or via the Federal Government.

Detailed Guidance on Capitalizing vs. Expensing Expenditures – Appendix B, continued

Topic	Old Policy	New Policy
Research and development costs	Not addressed in old policy	Requires research and development costs to be expensed as incurred.
Environmental remediation costs	Not addressed in old policy	Adds in new language on environmental remediation costs, requiring Tubs to engage FAR, Environmental Health Safety and Emergency Management along with Campus Services.

Appendix C: Detailed Guidance on Depreciating Facilities and Equipment

This policy was part of the old Capitalization and Depreciation Procedures. It was made into a separate appendix.

Key points:

- Depreciation methodology has changed from a full-year convention to monthly depreciation, starting with the month the asset was purchased or placed in service.
- Additional asset classes and useful lives were added (Service Center Assets, Vehicles, IT Networking)
- Added a table to include all asset object codes, the associate useful lives, and the optional subcategory in Oracle Assets.



Appendix D: Detailed Guidance on Disposals and Impairments

Topic	Old Policy	New Policy
Departing Staff/Faculty Transfers	Not addressed in old policy	Establishes high-level guidance on how to treat equipment that is being transferred with a departing faculty member.
Sponsored Assets	Disposal of sponsored assets not addressed in old policy	Adds policy guidance on how to dispose of assets that were acquired with sponsored funds.
Physical inventories	Not addressed in old policy	Requires any inventory discrepancies noted during a physical inventory be recorded in Oracle Assets.
Disposition	Not addressed in old policy	Adds language to the policy detailing when an asset disposition is required.
Impairments	High level guidance was provided	Detailed guidance on impairments has been added, clarifying when an asset is impaired and how to account for it.
Examples	Included in old policy	Completely revised to reflect current accounting environment

Appendix E: Detailed Guidance on Funding Procedures

The detailed guidance on funding procedures remains essentially the same. The policy has been reviewed and refreshed by the Office of Treasury Management to reflect the current process for debt funded projects.