Overview

It is Harvard University’s policy to maintain accurate and complete records of property, plant, and equipment held and to capitalize and depreciate them according to appropriate accounting, tax, and regulatory requirements. All departments must have internal procedures that will comply with Harvard University’s Capital Asset Policy that provides:

- Uniform guidelines for the collection of information necessary to properly capitalize the cost of assets.
- Consistent and accurate capitalization of all assets held by Harvard University as required for internal, external (GAAP), and regulatory reporting required for Federal sponsors and agencies.

These procedures include, but are not limited to, the determination and recording of a capital asset, the calculation and recording of depreciation, loan management, and the interaction with other Central Administration groups. As an IT organization providing services to University departments, it is essential that HUIT management understand these procedures as well as the resources and tools available to assist them in this process.
What Is a Capital Asset

Definition of Capitalization

From time to time, HUIT acquires or constructs tangible personal property including computer equipment, telephone or network infrastructure, office equipment, software and renovation of its facilities. University policy requires that the purchasing cost or construction of these items be capitalized as an asset as part of property plant and equipment if the following two criteria are met:

1. The individual item has a useful life of at least two years and
2. The combined purchase cost and/or cost of construction/installation is at least $5,000

The HUIT business group is then required to record the transaction as an asset on the balance sheet and record depreciation expense over the multiple periods that are benefited (i.e. 4 or 7 yrs). If the above criteria are not met, the item is considered a current period operating expense when incurred. Additionally, purchases for items less than $5,000 may still be capitalized if they are part of a larger asset and the total expenditures for the asset exceed $5,000.

What Can Be Capitalized

Capitalized costs of tangible personal property (equipment, furniture, fixtures, and vehicles) are those costs associated with the acquisition or construction of the tangible property to make the property usable for its intended purpose. Examples of acquisition costs include: vendor payments for product, transportation, installation, freight and in-transit insurance. Interest incurred between the time invoices are paid and the asset is created is also added to the total cost of the tangible property.

Note: Training expenses, license fees (for licenses which may have to be renewed annually) and annual maintenance costs should not be capitalized.

Below are two examples that demonstrate when an item must be capitalized as an asset.

Example 1: Capital Asset

A business installs a new billing system for use in business operations. The cost of the asset is as follows:

- Hardware $2,500
- Software $2,000
- Installation $1,000

Total Asset Cost $5,500

Although each of the asset components is less than $5,000, in order to make the billing system operational, the total cost outlay is greater than $5,000 and the costs must be capitalized and depreciated.

Example 2: Non-Capital Asset

Assuming the same scenario above, however, the business must also upgrade all the personal computers in the department. The additional cost of the PCs is as follows:

- Hardware (5 PCs @ $2,500 ea) $12,500
- Software (5 PCs @ $500 ea) $2,500

Total Cost $15,000

Although the total cost for all the PCs is greater than $5,000, each PC as a stand-alone item only costs $3,000 and, therefore, cannot be capitalized according to University policy and must be expensed when the cost is incurred.
Even though the new PCs may be necessary in order to access the new billing system, they are not considered a component of the billing system asset, and therefore cannot be grouped as part of the capitalized asset in Example 1.

**How to Purchase a Capital Asset**

All capital asset purchases and loan requests originate from a HUIT project manager, business manager or group director. All capital asset purchases, whether they require a University loan or not, must first be reviewed and approved by HUIT senior management. The roles of both the business managers and Financial Partners in this process are outlined below.

**Approval and Purchase Process (for Business Managers)**

In order to purchase a capital asset, HUIT managers must do the following:

1. Complete *Form 1 Capital Asset Approval Request* with the assistance of your Financial Partner
2. Provide documentation (e.g., vendor P.O., quote) supporting the financial information on Form 1
3. Directors are required to inform Managing Directors of all capital purchases <$100,000. If the total asset cost is > $100,000, the Director must obtain written approval from the Managing Director before proceeding to purchase the asset
4. The Financial Partner will then request and provide proper account coding to be used for the purchase

Invoices for capital purchases should be debited to the proper account coding provided by your Financial Partner. If the equipment is debt financed by the University, the account coding will include a unique activity value, for each fiscal year and loan type, and a unique sub-activity value for each loan describing the capital asset being purchased.

Approval from the Office of Treasury Management (OTM) to capitalize an asset may be denied even after the asset has been purchased, which could result in the asset being expensed in the current period.

**Invoice Processing**

Managers may proceed with purchasing a capital asset once they receive the approval from their Director and Managing Director. Invoice processing of capital asset transactions varies, depending on whether the Harvard Crimson Online Marketplace (HCOM) system is used or if the product or service is purchased from another Harvard department. Below is a summary of the steps to be taken under both scenarios.

**Harvard Crimson Online Marketplace (HCOM)**

If HCOM is used, the following steps should be taken:

1. Local HCOM Shopper will initiate the transaction by creating a purchase requisition request in HCOM using coding provided by the manager or financial partner and then route the requisition to the appropriate approvers as detailed in the HUIT Purchasing Authority Policy
2. When the requisition has been fully approved, HCOM produces a Purchaser Order number and a PO Form may be printed and provided to the vendor
3. When the asset has arrived, the Shopper must be notified to "receive" the item(s) in HCOM, which will allow the vendor to be paid
4. The invoice should also be sent to University A/P for processing at 1033 Mass Ave.
5. Once the invoice is received/processed by University A/P, the invoice will be scanned and attached to the original online requisition in HCOM, which can be viewed by the local shoppers, approvers and Financial Partners
Interdepartmental Transactions
If the purchase is from another Harvard department:

1. The manager provides the proper coding to sales staff
2. The manager requests confirmation or sales quote and forwards it to the Financial Partner
3. The manager reviews invoice/statement to ensure that proper coding was used and forwards it to the financial partner

Debt Financed Assets

Obtaining Debt Financing
Federal guidelines do not allow the purchase cost of a capital item to be recovered through service center rates or to be included in the calculation of the annual surplus or deficit. However, federal guidelines do allow for the recovery of depreciation, external interest, or capital lease costs associated with the asset. When an asset is debt financed by the University, a loan for the amount of the purchase is recorded on the department’s balance sheet (object code 3030) using a designated Activity value and unique Sub-activity value assigned to each loan. Principal and interest payments are posted monthly by OTM with the principal payment reducing the value of the loan and interest recorded as an operating expense.

Opening a Loan Account
In order to open a loan account in the general ledger, the following steps must be taken:

1. The Financial Partner completes the Chart Value Request Form and submits an email to the department Chart of Accounts (COA) Administrator.
2. The COA Administrator opens an account in the General Ledger (GL) and lets the Financial Partner know when the chart value has been submitted.
3. The Financial Partner completes Form 2 - Request for Debt Financing, indicates the loan amortization time period, and forwards the form to OTM for approval.
4. The Financial Partner communicates the proper account coding to the purchaser, if this has not been done previously.

Invoices to be capitalized should be debited to the proper account coding, which will include a unique activity value for each fiscal year and loan type and a unique sub-activity value for each loan.

What Account Code to Use
All HUIT debt financed assets should be charged to object code 1140 (Equipment in Progress – Nonsponsored) and will have a unique combination of activity and sub-activity codes. Annually, HUIT creates a separate activity to segregate capital assets by fiscal year. Sub-activities are then created for each loan request made to OTM that describes the capital asset being financed.

Below is an example of a 33-digit code and how the activity and sub-activity are utilized in the capital process.

Example: 175-11030-1140-000000-118181-0002-00000

The activity refers to the fiscal year the asset was created. In this example, the Activity 118181 is the value for a fiscal year 2012 while sub-activity 0002 provides a description for the capital asset
Capital Asset and Loan Establishment
The steps required to establish a capital asset on the general ledger must be done individually for each capital request submitted. It is prudent to monitor all capital asset requests, since interest will be incurred on invoices processed on the capital project until the asset/loan has been established. It is the responsibility of management to notify their Financial Partner when all the capital asset invoices have been processed and the individual capital asset is working and operational. Once this has occurred, the following steps should be taken to establish an asset on the University’s general ledger:

1. The Financial Partner completes and signs Form 3 Notification of Completion of Capital Equipment and sends it to OTM with a copy of all invoices
2. The Financial Partner confirms the loan amortization time period (e.g. 3 years or 6 years) on Form 3 in order to better align the loan end date with the fiscal year in which the asset is fully depreciated
3. OTM signs and returns Form 3 to the Financial Partner

For those capital assets that will be recorded on the balance sheet of Tub 175, the following additional steps must be taken:

1. OTM prepares a journal entry to move the capital asset to an asset object code, and create the loan on the general ledger of Tub 175.
2. OTM communicates the loan information, including the amortization schedule, to the financial partner.
3. The financial partner forwards the information to HUIT Accounting, who enters the asset and loan information into the HUIT capital asset/debt management databases.

Amortization of Loan
When a loan is created, the amortization schedule is prepared by OTM using the asset’s useful life or a shorter time period, if selected by the financial partner (in years e.g.; 3 years or 6 years). A shorter loan life may be chosen by the financial partner to better align the loan end date with the fiscal year the asset will be fully depreciated. Interest incurred between the time the invoices are paid and the loan is created will be added to the value of the loan. All HUIT loans are assigned the pooled interest rate that is established annually.

Non Debt Financed Assets
Business units may choose to internally fund an asset when it is purchased. A non-debt financed asset is placed in service and fully funded in the year that it is purchased. The Form 1 Capital Asset Request must still be completed and authorized. However, Forms 2 and 3 are not completed. Invoices should be expensed to the appropriate 33-digit account code, which specifically includes an object code within the given range of 6800-6816 provided by your Financial Partner.

Depreciation

Definition of Depreciation
Depreciation is the annual operating expense recorded by HUIT business groups that commences the year the item is placed into service or use, and ends when the asset cost has been fully depreciated or when the asset is no longer in use by the business group. A full year’s depreciation is recorded as an operating expense the first year the item is placed into service, regardless of the month this occurs.
How to Determine Useful Life
Annual depreciation is calculated using the Straight-Line Method, which takes the cost of the asset and divides it by the asset’s useful life. The University has defined the useful life of assets by category and has provided the following annual depreciation percentages using the straight-line method:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Useful Life</th>
<th>Annual %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasehold Improvement</td>
<td>35 yr</td>
<td>2.9%</td>
</tr>
<tr>
<td>Equipment (including fiber)</td>
<td>7 yr</td>
<td>14.2%</td>
</tr>
<tr>
<td>Computer Equipment</td>
<td>4 yr</td>
<td>25%</td>
</tr>
<tr>
<td>Furnishings &amp; Fixtures – residential</td>
<td>3 yr</td>
<td>33.3%</td>
</tr>
<tr>
<td>Furnishings &amp; Fixtures – office</td>
<td>7 yr</td>
<td>14.2%</td>
</tr>
<tr>
<td>Vehicles</td>
<td>4 yr</td>
<td>25%</td>
</tr>
<tr>
<td>Software</td>
<td>4 yr</td>
<td>25%</td>
</tr>
</tbody>
</table>

Loss of Useful Life
Under certain circumstances, the asset’s useful life may be accelerated. This is an especially important concept in the Information Technology environment, where growth in demand or rapidly developing technologies can often result in assets becoming obsolete sooner than expected.

There are usually two reasons why an asset loses its useful value:
- Physical Depreciation - deterioration from age or from wear and tear
- Functional Depreciation – a loss of useful value because of inadequacy or obsolescence

These situations are unusual and must be approved by HUIT Finance and the Office of Treasury Management (OTM).

Recording/Tracking Depreciation
Depreciation is recorded monthly once an asset is placed in service. However, because University guidelines require a full year of depreciation expense in the year the asset is placed in service, the initial month’s depreciation expense will include an adjustment or a catch-up amount so that the correct year-to-date depreciation amount will be recorded in the general ledger.

Capital Asset and Loan Databases
HUIT Accounting, in conjunction with the Financial Partners, maintain both an internal capital asset database and an internal loan database, which tracks historical capital asset cost (including invoice detail), useful life, date placed in service, annual depreciation expense, loan interest rate and the loan amortization schedule provided by OTM. The databases allow the Financial Partners to input capital planning estimates needed for year-end forecasting, budgeting and multi-year financial modeling. Reports from the capital asset database are used to support the monthly depreciation journal that is prepared by HUIT Accounting. Both the capital asset and loan databases are reconciled to the general ledger on a regular basis during the fiscal year.

Sale, Disposal or Transfer of Capital Assets
The sale or any manner of disposal or transfer of business assets must have business manager/director approval. Assets are sold, disposed of, or transferred for many reasons, including:
- Obsolescence due to:
  - Technology changes
  - Ability to obtain replacement parts
  - No longer required in the business
- Replacement of asset before or at the end of its useful life
Capital Process Management

- Closing or discontinuation of a business
- Transfer to another internal Harvard Department

Prior to the sale, disposal or transfer of an asset, business managers should confirm the remaining book value, existing loan balance or net equity balance on the University books with their Financial Partner. Finance will coordinate with HUIT Accounting to ensure that all internal asset/debt databases are updated and with OFAA/OTM to record the appropriate general ledger entries for the transaction.

Capitalization Forms
Below is a list of the forms used in the capital management process:

- Form 1 - Capital Asset Request
- Form 2 - Request for Debt Financing
- Form 3 - Notification of Completion of Capital Equipment
- External Sale of Asset - Significant External Sale of Asset

For More Information
For more information, please contact your Financial Partner