



# University of Pittsburgh

## FINANCIAL GUIDELINE

Subject: Fixed Assets

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### I. Scope

This guideline establishes requirements for the accounting for fixed assets recorded in the University's accounting records that are essential for both financial and government accounting purposes. This guideline also establishes asset valuation methods, depreciation method, and capitalization thresholds for financial reporting and government accounting purposes. Finally, this guideline also assigns responsibility to the Department Administrator for the proper accounting for fixed assets at the department level and to Financial Records Services for the maintenance of the Asset Management System.

### II. Guideline

#### Administration

Financial Records Services, under the direction of the Office of Financial Operations, is responsible for the maintenance of the Asset Management System. The asset management system enables the University to identify the location, use, and status of its capital facilities and equipment to effectively manage these financial resources. This information is combined with financial and activity data to support various cost and financial accounting analyses including the University's indirect cost proposal.

Department administrators are responsible for verifying that the purchase of fixed assets, as described below, is charged to the proper PRISM account numbers and subcodes.

Each responsibility center or department must assign an Asset Liaison Coordinator to serve as the primary contact with Financial Records Services. The Asset Liaison Coordinator is responsible for verifying that all asset data are correct and for notifying Financial Records Services when capitalized equipment is donated, transferred, or retired.

Federal regulations require that a physical inventory of equipment is taken and the results reconciled with the accounting records at least once every two years. In connection with the inventory, each department is responsible for maintaining adequate records to verify the existence and current utilization of their equipment.



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### II. Guideline (con't)

#### Valuation

Fixed assets acquired by purchase are recorded at cost including all normal expenditures of readying the asset for use. Fixed assets acquired by gift or bequest are recorded at fair market value at the date of acquisition. When the acquisition of land includes buildings, the total cost is allocated between the two in reasonable proportion at the date of acquisition. In absence of a reasonable basis, other sources may be used such as an expert appraisal or real estate tax assessment records.

#### Depreciation Method

The depreciation method used will be straight-line with one-half of one year's depreciation to be taken in the first and last years of the asset's life, regardless of the purchase date.

#### Buildings

In new buildings, building improvement, renovations or extraordinary repairs, a building's outside "shell" is to be treated separately from its building service components for asset classification and cost depreciation purposes. Building service components are to be categorized by separate asset classes with each asset class having its own estimated useful life.

Capital improvements, renovations, and extraordinary repairs to existing buildings must be greater than \$50,000 to require capitalization.

Interest payments for financed projects are to be capitalized in accordance with FASB Statements 34 *Capitalization of Interest Cost* and 42 *Determining Materiality for Capitalization of Interest Cost*.

#### Building Improvements

Additions of a building component or a building section where one did not previously exist are building improvements and are treated as fixed assets rather than renovations. These costs are capitalized.



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### II. Guideline (con't)

#### Building Renovations/Replacements

Renovation/replacement is the total replacement of a unit with a new unit that serves the same purpose and has the same estimated useful life as the unit being replaced. The purchase of a new unit to replace a worn out unit represents an addition to and deduction from property and the cost of the new asset is to be capitalized. The old asset is to be written off.

Replacement parts that do not materially extend the life of an asset are to be considered ordinary repairs and expensed. Expenditures for dismantling or removing an old asset are to be expensed.

#### Extraordinary Repairs

Extraordinary repairs, not recurring in the routine maintenance process, which extend the useful life of an asset or increase its use value (utility) beyond what it was before the repair, are capitalized. Expenditures to maintain an asset in efficient operation condition, which do not extend the normal economic useful life, are expensed.

#### Fabricated Assets

Assets fabricated by the University are to be capitalized if they meet the general capitalization criteria above. All materials, labor, and project administration and management costs required for the construction of an asset are to be capitalized. The project completion date is to be considered the acquisition date of a fabricated asset.

#### Donated Assets

Donated units that have a fair market value of \$5,000 or more, and meet the general capitalization requirement, are to be capitalized.



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### II. Guideline (con't)

#### Equipment

The unit acquisition cost includes the invoice cost of the unit, less any applicable discounts, plus related costs such as installation and delivery charges (freight and insurance), architect fees, engineering fees, and any other cost considered necessary to make the unit operational.

#### Land

Land is a non-depreciable asset.

#### Sponsored Program Accounting

The University recovers costs of its fixed assets on sponsored programs in one of two ways:

- Indirect – through the University's indirect cost or F&A rate calculation and application.
- Direct – through specific purchase for and direct identification to sponsored projects.

Capital expenditures for general-purpose equipment, buildings and land are unallowable as direct charges unless proposed and approved in advance by the sponsor. Since it is the University's disclosed practice to recover such costs indirect through its indirect cost rate, it would be a rare occurrence that such costs would be proposed and recorded direct to a sponsored award.

Expenditures for special purpose equipment used exclusively on a sponsored project are allowable as direct charges with the approval of the sponsoring agency.

Capital expenditures for improvements to land, buildings or equipment that materially increase their value or useful life are unallowable as direct charges except where approved in advance by the sponsor.

Capital expenditures are unallowable as F&A costs, but are allowable as depreciation charges recovered through the F&A or indirect cost rate.



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### III. Definitions

Fixed Asset – a tangible asset that is used in a productive capacity, has physical substance, is relatively long-lived and provides future benefit that is readily measurable.

Depreciation – the annual charge to income that results from a systematic and rational allocation of cost over the life of a tangible asset.

Equipment – an article of non-expendable, tangible property having a useful life of more than two years and an acquisition cost that equals or exceeds \$5,000.

Capital Expenditure – the cost of fixed assets including the costs of placing the asset into service. These “acquisition” costs include the invoice price of the asset including any modifications, attachments, accessories or auxiliary equipment necessary to bring the asset into operating condition. The costs also include additional charges such as taxes, duty, freight, set-up and installation, among other related expenses.

Special Purpose Equipment – equipment that is used only for research, medical, scientific or other technical activities.

General Purpose Equipment – equipment such as laboratory equipment, office equipment, computers, telecommunications and other electronic equipment, furniture and other furnishings, copiers, motor vehicles, etc. whose use is not limited only to research, medical, scientific or other technical activities.

### IV. References

GAAP

OMB Circular A-21 D.

OMB Circular A-21 E.

OMB Circular A-21 F. 2,4

OMB Circular A-21 J. 12,16, 22, 27

OMB Circular A-110 C. 34

OMB Circular A-110 C. 2. c