University of Pittsburgh

FINANCIAL GUIDELINE Subject: Fixed Assets

I. Guideline Background

Proper accounting for fixed assets is a required responsibility of the University of Pittsburgh (**University**) for financial reporting and government accounting purposes.

II. 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 assigns responsibility to the Departmental 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.

III. Definitions

The following definitions apply throughout this guideline:

Acquisition Cost – The total cost of bring a fixed asset into service. This includes the cost of the item(s) including modifications, attachments, accessories, or auxiliary equipment less any applicable discounts, plus related installation and delivery charges (freight and insurance), architect fees, engineering fees, and any other cost considered necessary to make the unit operational.

Capital expenditure – Capital expenditures are the transactional costs comprising Acquisition Cost (see above).

Departmental/Research Administrator (DA) – individual who is responsible for the original financial accounting, budgeting, and administration of the sponsored projects of a department or Principal Investigator

Depreciation – a periodic expense that results from a systematic and rational allocation of cost over the useful 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

Fixed Asset – a tangible asset valued at or greater than $5,000 that is used in a productive capacity, has physical substance, is relatively long-lived, and provides future benefit that is readily measurable

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

Useful Life – an estimate of the length of time a depreciable asset will remain in-service and generating economic benefit; asset lives are assigned based on industry standards.

IV. 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.

Departmental administrators are responsible for verifying that the purchase of fixed assets, as described below, is charged to the proper University account numbers and subcodes. Reference the PRISM Expense Subcode Listing.

Each responsibility center or department must assign a Property Custodian 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, lost, stolen, cannibalized, or otherwise retired for general obsolescence.

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 this inventory, each department is responsible for maintaining adequate records to verify the existence and current utilization of their equipment.

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 types of assets in reasonable proportion at the date of acquisition. In the 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 shall 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. This is the half-year convention for straight-line depreciation.

Buildings

In new buildings, building improvements, 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 a building shell rather than renovations. These costs are capitalized.

Building Renovations/Replacements

Renovation/replacement projects are the major repair, upgrade, or rehabilitation of space that increase the value and/or extend the useful life of a building. These projects represent an addition to and deduction from property, and the cost of the new asset is to be capitalized while the old asset is 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.

Repairs

Extraordinary repairs, not recurring in the routine maintenance process, which extend the useful life of an asset are capitalized. Expenditures to maintain an asset in efficient operating condition, which do not extend the normal economic useful life, are expensed.

Replacement parts that do not extend the life or increase the value of an asset are to be considered ordinary repairs and expensed. Expenditures for dismantling or removing an old asset are to be 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. Fabricated assets are only recorded in the University Asset Management System and capitalized when title to the equipment vests with the University.

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.

Equipment

The unit acquisition cost includes the list price, 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:

- **Indirectly** – through the University's indirect cost or Facilities & Administrative (F&A) rate calculation and application

- **Directly** – 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. The University's disclosed practice is to recover such costs indirectly through its indirect cost rate.

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

Capital expenditures for improvements to land, buildings, or equipment that meet the threshold for capitalization and increase the useful life of the original asset are unallowable as direct charges except when 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.

V. References

Generally Accepted Accounting Principles (GAAP)
FASB Statement of Financial Accounting Standards (SFAS) No. 34 and No. 42
OMB Uniform Guidance Sections 200.313, .436, and .439
OMB Uniform Guidance Subpart D
OMB Uniform Guidance Subpart E