

MARQUETTE UNIVERSITY

Office of the Comptroller

Capitalization, Inventory, Depreciation and Retirement of Property, Buildings, and Equipment

Direct all inquiries to: Comptroller's Office 288-0833

Effective Date: July 1, 2006

WHY DO WE HAVE THE PROCEDURE?

Marquette University is required to provide for consistent and accurate capitalization of all assets held by Marquette University for internal, external (GAAP), and regulatory reporting required for Federal sponsors and other sponsors and agencies. This procedure establishes uniform guidelines for the collection of information necessary to properly capitalize, inventory and depreciate property, buildings and equipment.

It is the practice of Marquette University to maintain accurate and complete records of property, buildings, and equipment held and to capitalize and depreciate them according to appropriate accounting, tax, and regulatory requirements. Once an asset's cost is capitalized, it will be written off periodically, or depreciated, in a systematic manner over the estimated useful life of the asset. In addition, the procedure identifies the procedures of physical inventory of capital equipment as required for Federal sponsors and other sponsors and agencies. Finally, the procedure addresses the systematic removal of fully depreciated property, buildings, furnishings and equipment from the records of the University.

For financial statement and government reporting purposes, property, buildings, and equipment include:

Land and Improvements

Building and Improvements

Construction in Progress

Furniture, fixtures and equipment (includes vehicles)

Library contents (books and certain periodicals)

HOW TO IMPLEMENT

This procedure describes the process for financial recording after capital budget approval and acquisition. University departments should read this procedure in conjunction with these related policies:

- "UPP1-03: Capital Budget" to understand the process for submitting and obtaining approval for a capital budget request.
- "UPP 3-14: Disposition of Furniture, Fixtures or Equipment" to understand the process for disposing of tangible personal property through transfer or the sale of the asset.

- “UPP 2-01: Sponsored Projects Manual, Section #18 - Equipment and Property Management” to understand the responsibilities of managing equipment acquired with extramural funding.

Requirements for Capitalization

To be considered for capitalization, and thus subject to depreciation, an asset must fulfill these characteristics:

- The asset must be acquired (purchased, constructed, or donated) for use in operations, and not for investment or sale.
- The asset must have a useful life of at least one year.

For renovations, betterments, or improvements that add to the permanent value of the asset, the improvements must fulfill at least one of the following criteria:

- The useful life of the asset is increased.
- The productive capacity of the asset is improved.
- The quality of units or services produced from the asset is enhanced.

All assets considered for capitalization must meet the following dollar thresholds in addition to the criteria above. The thresholds represent the dollar value at which an asset is capitalized. Purchases less than the dollar value thresholds should be treated as an expenditure.

Asset Category	Capital Threshold
Land	\$ 0 *
Buildings	\$ 25,000
Construction in progress	\$ 25,000
Furniture, fixtures and equipment	\$ 5,000 **
Building improvements	\$ 25,000
Software	\$ 5,000 **
Library books	\$ 0 ***
Land improvements	\$25,000
Vehicles	\$0 *

Notes: Thresholds apply to costs at purchase or construction and the fair market value of donated assets to be used in operations at the time of the donation.

* All land and vehicle acquisitions are capitalized.

** Capitalization thresholds for furniture, fixtures and equipment increased from \$1,000 to \$5,000 effective 7/1/2006.

*** Effective 07/01/2004, electronic library periodicals are considered expense items and are not capitalized as part of library books. All

printed library books and periodicals, including periodicals that the University receives on a CD-Rom, are capitalized.

Schedule A: Definition and Classification of Capital Costs

The basis for accounting for property, buildings, and equipment is cost. All normal expenditures of readying an asset for its extended use are capitalized. The information below identifies specific capitalizable costs for individual categories of assets.

Land and Improvements

The following costs related to the acquisition of land should be capitalized:

- Purchase price
- Appraisals
- Professional services
- Title insurance
- Title searches
- Broker's fees
- Closing costs

If land is purchased as a building site, certain expenses may also be capitalized:

- Razing and removal
- Land improvements
- Site improvements
- Landscaping associated with new construction

Buildings

The following costs related to the acquisition, construction, or improvement of a building should be capitalized in the fiscal year placed in service. Acquisitions, construction or renovations are approved through the capital budget process and are tracked as approved projects.

Acquisition costs include:

- Purchase price
- Professional services
- Appraisals
- Title insurance

Construction costs include:

- Professional services
- Appraisals
- Test borings
- Site preparation
- Materials
- Labor

- Overhead
- Move-in costs (i.e. external moving service)
- Capitalized interest

Building costs do not include (these costs are expensed as repair and maintenance):

- Painting, not part of an approved construction or renovation project
- Marquette travel related to the project
- Equipment and furnishings with a unit cost of less than \$5,000, unless such costs are bundled,
- Carpeting under \$25,000, not part of an approved construction or renovation project
- Minor renovations under \$25,000 in total.

The Construction in Progress classification will be used to accumulate all costs related to approved building projects. An asset will be capitalized periodically into the appropriate fixed asset class at the earliest of 90% project or phase completion or the first date the asset is placed into service. Once a building is initially capitalized, additional costs of the project will be capitalized periodically in subsequent months.

Furniture, Fixtures and Equipment

Capitalized costs of equipment, furniture, fixtures and equipment (including vehicles) are those costs associated with the acquisition or construction of the property. The property must have a useful life of one year or more and cost \$5,000 or more.

The acquisition costs include:

- Invoice price
- Transportation
- Installation
- Duty
- In-transit insurance

In addition to the costs listed above, all costs associated with modifications, attachments, accessories, or auxiliary and component parts necessary to make the property usable for its intended purpose may also be capitalized.

Lots or groups of equipment or furniture that consist of multiple units of the same or similar product for a specific department or college with a total value equal to or greater than \$5,000 and a useful life of more than one year may be capitalized. For example, the purchase of 3 replacement laptop computers for a department that cost \$2,600 per unit would not be capitalized on an individual basis. However, because the computers are a uniformed product and are purchased on the same order, it may be capitalized as a lot or group. Another example would be the purchase of a conference table and chairs. Individually, these items may not exceed the threshold of \$5,000 but taken as a lot, those items, if \$5,000 or more, may be capitalized.

Computers and Computer Replacement Program

The new accounting procedure allows for the purchase of like items (i.e., computers) to be bundled into a single purchase and capitalized. Therefore, purchases of computers that are coordinated through the Information Technology Services (ITS) department Computer Replacement Program (CRP) will qualify to be capitalized. Computers purchased on a stand alone basis by a department where the cost is less than \$5,000 will not be capitalized. When a department purchases computers on a stand alone basis, it

should notify ITS of their computer purchases to ensure that departmentally purchased equipment is added to the Computer Replacement Program for inclusion in the four year replacement cycle. If ITS does not receive departmental computer purchasing information, stand alone computer purchases will not be considered part of the CRP.

There is one exception to the capitalization threshold of \$5,000 per individual unit of property. As part of a building acquisition or construction project, costs may be incurred to fit out space with new furnishings and equipment. When such purchases are made as part of an acquisition/construction project, if the aggregate cost of these expenditures equals or exceeds \$5,000 and the items have a useful life of one year or more, the costs may be capitalized even though some of the individual items cost less than \$5,000. However, only allowable capitalizable items (i.e., items having a useful life of one year or more) may be included in the amount capitalized. Incidental items to complete a building for usage such as wastebaskets should not be capitalized.

Because the useful lives of furniture, fixtures and equipment not affixed to the building differ from the useful life of the building, assets for moveable furnishings and equipment (MFE) are accounted for separately from building assets at the close of the construction project.

Software

All costs related to the external purchase of software applications of \$5,000 or more with a useful life of one year or more may be capitalized. Fees paid for training, conversion costs and software maintenance may not be capitalized and must be expensed. The external costs of upgrades and enhancements that enable the software to perform tasks that it was previously incapable of performing may be capitalized; otherwise such costs are not capitalizable and must be expensed. Items that are not capitalized include University travel and labor related to the implementation.

Software site licenses may only be capitalized if they qualify for capitalization as noted below. In order to be capitalizable, a site license must be for a minimum of one year, cost of \$5,000 or more, and may not include such items as provisions for maintenance, help desk support, or training. If the site license includes maintenance, support, or training, the costs related to these components must be separated and expensed. If these costs cannot be separated on a reasonably cost-effective basis, the license does not qualify for capitalization.

Leases

Effective interest rates on capital leases typically are higher than Marquette's borrowing costs and, hence, such leases will generally not be approved. A lease is considered a capital lease if it meets any of the following tests:

1. The lease transfers ownership of the leased property to the University at the end of the lease term.
2. The lease contains a bargain purchase option that permits the University to buy the property at a price significantly below fair value at the end of the lease term.
3. The lease term is equal to 75% or more of the economic life of the leased property.
4. The Net Present Value at the beginning of the lease term of the minimum lease payments equal or exceed 90% of the fair market value of the leased property.

The determination of whether a lease is capital or operating will be made by the Comptroller's Office during the review of the lease contract. An operating lease will be treated as an operating expense and charged to the appropriate expense category in the current year.

Donated Assets

Donated property, buildings, or equipment and furnishings that meet the requirements for capitalization and that will be in service by the University will be capitalized at the fair market value of the donation. Donated assets that will be resold should not be capitalized.

The value of donated property, buildings or equipment will be determined as follows:

- Less than \$100,000 – valuation based on donors documentation
- \$100,000 - \$499,999 – University values based on current market prices and conditions and consideration of the donors documentation. Documentation in support of the valuation is provided to the Comptrollers Office.
- \$500,000 or greater – University obtains an independent appraisal to value the donation.

Interest Costs During Construction

The capitalized costs of interest during construction for debt-financed projects are the costs of interest related to the acquisition or construction of an asset. The interest costs can be capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Grant funded furniture, fixtures and equipment

Furniture, fixtures and equipment fully funded by grant funds are charged to the grant as expense when purchased. Although the capital asset is treated as an expense, it is still inventoried as a fixed asset by the Grant Management Office. Grant funded equipment is treated as an expense because under most sponsored agreements the University does not retain title to the equipment.

Capital assets that will be purchased with a split between University and grant funds will be treated according to the capitalization procedure and the sponsor agreement. Equipment purchased with any portion of funding from the University will have ownership vested with the University for the value of its share of the cost. If it equals or exceeds the \$5,000 capitalization threshold, the amount will be capitalized. If the University's share of the equipment is below the \$5,000 amount, it will be expensed.

If the equipment is >\$5,000 but less than \$5,000 provided by University funds it will be inventoried as a fixed asset by the Grant Management Office.

If the equipment is >\$5,000 and more than \$5,000 is provided by University funds, it will be inventoried as a fixed asset by the Grants Management Office for the Sponsored Project investment and by the University in the Oracle Fixed Asset system for the University investment. The University funded portion of the equipment is depreciated over the estimated useful life.

If equipment cost sharing or matching is proposed to the sponsor, work with the Office of Research & Sponsored Projects prior to the commitment.

Schedule B: Building Improvements

Building improvements are significant alterations, renovations, or structural changes that meets or exceeds \$25,000 and that increase the usefulness of the asset, enhance its efficiency, or prolong its useful life by at least one year.

A determination of whether a project qualifies as a building improvement should be obtained from the Budget office prior to commencement of the project through the capital budget request process.

Building improvements may include interior or exterior construction of a building or building systems, such as electrical or plumbing systems. They may also include the completion of interior or exterior appointments or finishes, so long as they are done as part of a significant alteration or renovation.

Categories of Building Improvements Include:

Alterations	<p>A change in the internal arrangement or other physical characteristics of an existing asset so that it may be effectively used for a newly designated purpose.</p> <p>Example:</p> <ul style="list-style-type: none"> • Changing classroom space into office space
Renovations	<p>The total or partial upgrading of a facility to higher standards of quality or efficiency than originally existed.</p> <p>Example:</p> <ul style="list-style-type: none"> • The transition of an old research laboratory into one with state-of-the-art equipment, lighting, or other subsystems
Betterment, Renewal, Replacement	<p>The overhaul or replacement of major constituent parts that have deteriorated because of the elements or usage.</p> <p>Example:</p> <ul style="list-style-type: none"> • Replacement of old or broken windows with a new thermal variety

Schedule C: Non-Capitalizable Expenses

Costs that neither significantly add to the permanent value of a property nor prolong its intended useful life are expensed. The following types of building costs are expensed:

Maintenance	<p>The costs associated with recurring work required to preserve or immediately restore a facility to such condition that it can be effectively used for its designed purpose. Maintenance includes work done to prevent damage to a facility.</p> <p>Example:</p> <ul style="list-style-type: none"> • Custodial services; repainting a room; fixing a
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	leaky faucet; temporary repairs.
Preservation/Restoration	The costs associated with maintaining special assets in, or returning them to a level of quality as close to the original as possible. Example: <ul style="list-style-type: none"> Returning a stained glass window to its former level of beauty or acting to prevent any further deterioration
Costs Below Capitalization Thresholds	Items that do not meet the monetary thresholds listed in this procedure should be expensed in the period incurred.
Collections	Works of art, historical treasures, rare books, and similar assets should not be capitalized, nor should they be depreciated, provided: <ul style="list-style-type: none"> They are held for public exhibition, education, or research in furtherance of public service rather than financial gain. They are protected, kept unencumbered, cared for, and preserved. Any proceeds from the sale of collection items will be used to acquire other items for collections.

Schedule D: Asset Depreciation Methods

With the exception of land, all non-grant funded capitalized assets should be depreciated using the straight-line method over the useful life of the asset class. An asset's life is the period of time over which services are expected to be rendered by the asset. The calculation of depreciation should be based on historical cost (capitalized costs).

Asset Category	Depreciation Method	Useful Life
Buildings	Straight Line	50 yr.
Building Improvements	Straight Line	10-20 yr.
Leasehold Improvements	Straight Line	15 yr. (or the term of the lease, whichever is

		shorter)
Land Improvements	Straight Line	10-25 yr.
Equipment (including computer equipment)	Straight Line	5 yr.
Scientific Equipment	Straight Line	7 yr.
Furnishings & Fixtures		
Residential	Straight Line	5 yr.
Office	Straight Line	5 yr.
Vehicles	Straight Line	5 yr.
Software	Straight Line	5 yr.

Depreciation Expense

Depreciation of capitalized assets will commence in the year the item is placed into service or use. One half year's depreciation will be recorded in the year of acquisition. A newly acquired or constructed building, including the shell and all components (that is, plumbing, electrical system, roofing, interior finishing, and HVAC), will be treated as a single asset and depreciated over a single useful life.

SCHEDULE E: Disposal of Assets

An asset is disposed of when it no longer serves its intended purpose. This may result from technological advances, normal wear and tear, and destruction and through natural causes or theft.

Departments that wish to dispose of an asset should refer to "UPP 3-14: Disposition of Furniture, Fixtures or Equipment". Notification of loss of an asset through theft or other natural causes should be provided first to Public Safety and also to the Comptroller's Office so that the item may be removed from the books of the University. Assets purchased with grant funds may have far stricter controls for retirement procedures depending on the grant contract. Departments should refer to UPP2-01, Sponsored Projects Manual section 18 for more information. In addition, the Office of Research & Sponsored Programs should be contacted concerning questions of final disposition of these assets.

When the accumulated depreciation equals the original cost, no further depreciation is accrued; however, both the balance of the capitalized cost and the accumulated depreciation remain on the books until the item is disposed. When the item is dismantled, demolished, sold, or otherwise disposed, the cost of the item and accumulated depreciation are removed from the ledger.

Because the notification of disposal of assets is decentralized, the following process will be followed to retire fully depreciated assets from the books of the University. Assets that are fully depreciated and meet the following criteria will be removed from the books of the University and considered disposed:

1. Assets are not grant funded
2. Assets have been held for two times the useful life (i.e. useful life of 5 years, held for 10 years).
3. Assets are categorized as furniture, fixtures, and equipment or building improvements.

SCHEDULE G – Annual Inventory Procedures

To comply with OMB Circulars A-21 and A-110, annual inventory procedures will be conducted in accordance with the following procedures:

1. General Purchase Use
 - a. All items that are individually identifiable as equipment and furnishings and have a cost value equal or greater than \$5,000 are considered inventoried as part of the University's initial receiving process.
 - b. Subsequent to the year of purchase, individually identifiable equipment and furnishings with a net book value of \$25,000 or more will be verified on a biannual basis in accordance with the schedule in Attachment I.
 - c. Verification will be conducted through an inventory confirmation process sent by the Comptrollers Office to the various departments where the asset is held. Inventory confirmations must be returned by the departments on a timely basis.
2. Federal and State Grant Funded Use – Inventory is required for equipment purchased with grant funds during the term of the grant. Once the end date of the grant is reached, accountability for items is no longer required unless it meets the overall "general use" criteria stated above.
 - a. All items that are individually identifiable as equipment and furnishings and have a cost value equal to or greater than \$5,000 are considered inventoried as part of the University's initial receiving process.
 - b. Subsequent to the year of purchase, individually identifiable equipment and furnishings with a net book value of \$5,000 or more will be verified on a biannual basis in accordance with the schedule in Attachment II.
 - c. Verification will be conducted through an inventory confirmation process sent by the Comptrollers Office to the various research departments where the asset is held. Inventory confirmations must be returned by the departments on a timely basis.