

Diocese of San Diego

FIXED ASSETS POLICY CAPITALIZATION & DEPRECIATION FIXED ASSET RECORDS AND PHYSICAL INVENTORY

Generally accepted accounting principles for non-profit organizations, including churches, require the capitalization and recognition of the declining value of long-lived assets (commonly referred to as Fixed Assets) through recording depreciation expense over the useful life of the asset. Fixed assets are assets that are long-term (life of more than one year) in nature and will benefit the organization over a period of time.

A purchase or improvement will be considered a fixed asset if the item is \$10,000 or more and is expected to be useful to the organization for more than one year.

The following factors are relevant to properly recognizing fixed assets and recording the correct amount of depreciation: (1) determine whether the asset qualifies for capitalization; (2) depreciation method to use; (3) the useful life of the asset; (4) amount of depreciation to be recognized upon acquisition; and (5) disposition of a fixed asset.

For purposes of this policy, the date of acquisition for construction/major building improvement projects is considered the date the Certificate of Substantial Completion is received. For all other assets, the date of acquisition is the date ownership passes to the entity.

Capitalize vs. Expense

The following guidelines are provided to determine whether to capitalize or expense the cost of an asset.

For acquisition of new property, buildings and major building improvements, initial expenditures are posted to Account 190 Construction in Progress during the construction/project phase.

It can be difficult to decide when to capitalize and when to expense improvements to an existing asset. Generally, if an expenditure improves the efficiency, or materially extends the useful life of the existing asset, it should be capitalized.

In certain circumstances in which there is a purchase of fixed assets associated with a major new initiative, it may be appropriate to capitalize the bulk costs of the assets that might not otherwise be individually lower than the stated threshold amount of \$10,000. Examples might include new furniture for a renovated hall, the rollout of computer tablets at a school, and so on. Replacement costs subsequent to the initial purchase should be treated as individual purchases in accordance with this policy.

Land and Land Improvements – All land is to be capitalized. Land and Land Improvements that are exempt from property taxes for ‘Religious’ use purposes are posted to Account 171. All other ‘Non-Religious’ Land and Land Improvements are posted to Account 172.

Cost of Land acquired should include:

- The purchase price
- Closing costs including appraisals, legal, title and recording fees
- Cost incurred in getting the land in condition for its intended use, such as grading, filling, draining, clearing and surveying
- Demolition costs
- Assumption of liens or mortgages or encumbrances
- Judgments levied through damage suits
- Any additional land improvements that have an indefinite life

Cost of Land Improvements should include:

- Culverts, fencing, flag poles, parking lots, roadways, sewer, water and electric lines, yard lighting, paving (roadways, walks, parking), shrubs, lawns, and trees.
- Any additional land improvements that have a finite life.

Buildings and Building Improvements

The cost of buildings and building improvements should include:

- Purchase or construction cost including demotion of unwanted structures prior to construction.
- Legal and architectural fees
- Building permits
- Insurance premiums during the construction phase
- Interest costs incurred during the construction phase

Building Improvements can be extraordinary repairs, renovation or betterments. These improvements are capitalized if one of more of the following criteria are met:

- Assets useful life is extended
- Capacity of the asset is increased
- Operational costs are substantially reduced

Furniture and Equipment

Cost of furniture and equipment should include:

- Purchase price
- Freight and handling charges
- Insurance while in transit
- Assembling and installation costs

Vehicles

The capitalized cost is the total purchase price of the vehicle.

The following is an example of the entry to be booked when Equipment is purchased during the year:

	Debit	Credit
176 Furniture & Equipment (cost) or Appropriate Sub-Account	\$70,000.00	
1001 Main Checking		\$70,000.00

To record purchase of Equipment.

Depreciation Method

The straight line method will be used as the depreciation method for all fixed assets subject to depreciation.

Useful Lives

<u>Type of Fixed Asset</u>	<u>Useful Life</u>
Land	Not depreciated
Land Improvements	10 years
Buildings	40 years
Building Additions	20 years
Building Improvements	15 years
Solar Panels	25 years
Furniture & Equipment	5-10 years
Vehicles	5 years
IT Equipment	3 years

Recognition of Depreciation

Depreciation is recognized for all fixed assets acquired beginning with the month (regardless of date of service) an asset is placed in service or ownership passes to the entity.

For acquisition of new property, buildings and major building improvements, depreciation is recognized only when the project is completed or the Certificate of Substantial Completion is received and the asset cost is transferred from Account 190 Construction in Progress (**Credit**) to Account 173 Buildings and Improvements or appropriate sub-account (**Debit**).

Depreciation should be recorded on a monthly basis. The following is an example of the monthly depreciation entry to be booked when new Equipment is acquired on April 17th, 2006 for \$70,000 (useful life of 10years):

	Debit	Credit
700 Depreciation Expense (\$70,000 / 10 yrs. / 12 mos.)	\$583.33	
1804 Accumulated Depreciation-Furniture & Equipment		\$583.33

To record depreciation for the month of April.

Depreciation Schedule

A depreciation schedule is to be maintained for all Fixed Assets and the balances reconciled to the general ledger accounts at mid-year and year-end, at a minimum. Contact the Finance Office if you need further assistance.

Disposition of Fixed Assets

Depreciation is recorded through the month of disposition of an asset. When an asset is disposed of as a result of damage, obsolescence or sale, the Capitalized Cost and its related Accumulated Depreciation is removed from the Balance Sheet and the difference in the net asset cost and proceeds received, if any, is recognized as a gain or loss on disposition of fixed asset.

The following is an example of the entry to be booked upon the 5/11/2010 disposition of the Equipment acquired on April 17th, 2006 for \$70,000 (useful life of 10 years):

	Debit	Credit
1804 Accumulated Depreciation-Furniture & Equipment (\$583.33 Depreciation/mo x 50 mos)	\$29,166.50	
Loss on disposition of Fixed Asset 176 Furniture & Equipment (cost) or Appropriate Sub-Account	\$40,833.50	
		\$70,000.00

To record disposition of Equipment on 5/11/2010.

The following is an example of the entry to be booked upon receipt of \$3,000 on 12/15/2015 for the sale of the Equipment acquired on April 17th, 2006 for \$70,000 (useful life of 10 years):

	Debit	Credit
1804 Accumulated Depreciation-Furniture & Equipment (\$583.33 Depreciation/mo x 117 mos)	\$68,249.61	
1001 Main Checking Account – proceeds from sale 176 Furniture & Equipment (cost) or Appropriate Sub-Account	\$ 3,000.00	
		\$70,000.00
Gain on disposition of Fixed Asset		\$ 1,249.61

To record sale of Equipment on 12/15/2015.

FIXED ASSET RECORDS AND PHYSICAL INVENTORY

Fixed Asset Records

Every parish and school must maintain records of all fixed assets whether capitalized or expensed. The records are also important for insurance purposes. Each asset record should include the following information: (See Fixed Assets Inventory Template)

- Asset Description
- Serial number, if applicable
- Date of acquisition

- Vendor or party purchased from
- Acquisition price
- Physical location of asset
- Person responsible for asset
- General Ledger account charges
- Disposal date when applicable

Certain capital assets, by their nature, are more subject to loss of value or theft. These assets, namely furniture, fixtures, video equipment, camera equipment, computer equipment and the like, should be subject to greater control than parish land, buildings and renovations. As a result, all furniture, fixtures and equipment must be inventoried on an annual basis. This inventory must include a description of the item, the date of purchase, the price and its location at the parish.

Physical Inventory Procedure

All physical inventories will be taken as close to the end of the fiscal year as possible. To assist in the orderly year-end closing, the school and parish offices each should complete and submit an inventory of furniture, fixtures and equipment held as of June 30th. The parish business office is responsible for final inventory reporting and will issue specific guidelines for the inventory process. Departments and offices are responsible for arranging, taking, and submitting physical inventories to the Parish Business Office no later than August 1st each year.

IMPLEMENTATION SUGGESTIONS

Notifications to all affected parties

The parish business office will notify the school and any other departments by May 1st of each year of the inventory and furnish a copy of the previous inventory (if available). The date for the return should be specified.

Housekeeping and dispose of items no longer in service/use

Clean up the office and classroom areas. Locate and order the inventory items for easy counting. Make sure all items are clearly identified with tags, labels or electronic markers as applicable. Identify damaged, unsafe or obsolete fixed asset items and move them to a designated location for proper accounting and for disposal. Work with the pastor, principal and/or parish business manager to determine which items will no longer be needed. List and journalize the items to be disposed of taking care to realize the most judicious amount on their sale and/or least expense in the asset disposal. Disposal of excess, obsolete or unusable items eliminates the cost of storage and safeguarding. Update the building floor plans with accurate office or room locations. Determine what is not to be counted such as packing supplies and miscellaneous items not on the inventory records. Make sure they are clearly marked.

Establish and formalize your physical inventory policies & procedures

Procedures should be employed to identify locations that have been counted; count sheets and their use; recording quantities; reconciling discrepancies; unknown items; assignment of counting teams.

In case of questions related to capitalizing assets, please contact the Finance Office.