

## **FIXED ASSET PROCEDURES**

It is the policy of St. Norbert College to maintain accurate and complete records of Fixed Assets held and to capitalize and depreciate them according to appropriate accounting requirements. Once an asset's cost is capitalized, it will be depreciated proportionately over the estimated useful life of the asset.

For financial statement purposes fixed assets include:

- Land
- Campus Buildings
- Other Campus Buildings
- Leasehold Improvements
- Equipment and Furniture
- Library Collections
- Leased Equipment
- Campus Improvements
- Construction in Progress

\* Art Collections are categorized as Other Assets for financial statement purposes.

There are two major objectives in maintaining the inventory system. First is the accurate recording of assets within the accounting system, and second, the accurate recording of assets for insurance coverage. The task of maintaining the inventory is the responsibility of the Finance Department.

### **CAPITALIZATION CRITERIA**

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 or improvements that add to the 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.

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 threshold should be treated as expenses in the current year.

<b>Asset Category</b>	<b>Capital Threshold</b>
Land*	\$0
Campus Buildings	\$25,000
Other Campus Buildings	\$25,000
Leasehold Improvements	\$25,000
Equipment and Furniture	\$ 5,000
Library Collections*	\$0
Leased Equipment	See criteria below
Art Collections	\$ 5,000
Campus Improvements	\$25,000

**\* All land and library book acquisitions are capitalized**

All normal costs of readying an asset for its intended use are capitalized. The information below identifies specific capital costs for individual asset categories.

**Land**

This subcategory includes all land that is purchased or acquired by gift or bequest. If the land is purchased, its value is the amount paid for the purchase, including all costs such as broker fees and legal fees. If the land is acquired by gift or bequest, its value should be recorded at fair market value at the date of the gift or bequest. Land is not depreciated.

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, costs incurred to get the land ready for its intended use are also capitalized:

- Razing and removal
- Site improvements-grading, draining, filling, etc.
- Landscaping associated with new construction

**Buildings**

This subcategory consists of all structures used for operating purposes. Included are all permanently attached fixtures, machinery, and other components that cannot be removed without damaging the building. If a component can be removed without damaging the building, it is considered equipment and should not be included in the

value of the building. All direct costs of the construction are applied to the value of the building. Interest incurred during construction should also be added to the cost of the building. Significant structural changes to the building that increase its usefulness, efficiency, or asset life also should be accounted for and added to its value.

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
- Capitalized interest

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

- Painting, wall-covering and flooring not part of an approved construction or renovation project
- St. Norbert College travel related to the project
- Equipment and furnishings with a unit cost of less than \$5,000. Unit costs over \$5,000 are capitalized as equipment and furnishings
- Minor renovations under \$25,000 in total
- The value of the land, which should be allocated based on the FMV of the land vs. building at the time of purchase or allocated based on the % split on the real estate tax bill

### **Building Improvements/Leasehold Improvements**

Building improvements/leasehold 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.

Building improvements/leasehold 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. If the cost of the improvement is over \$100,000, 10% of the cost is considered the value of the item being replaced and is removed from the asset.

#### Capital improvement costs:

- Alterations – 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. Example: Changing classroom space into office space.
- Renovations – The total or partial upgrading of a facility to higher standards of quality or efficiency than originally existed. Example: The transition of an old laboratory into one with state-of-the-art equipment, lighting, or other subsystems
- Betterment, Renewal, Replacement – The overhaul or replacement of major constituent parts that have deteriorated because of the elements or usage. Example: Replacement of old or broken windows

#### Non-Capital expenses:

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

- Maintenance – 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. Example: Custodial services; repainting a room; fixing a leaky faucet.
- Preservation/Restoration – The costs associated with maintaining special assets in, or returning them to a level of quality as close to original as possible. Example: Returning a stained glass window to its former level of beauty or acting to prevent any further deterioration.
- Costs below capitalization threshold – Items that do not meet the threshold of \$25,000 should be expenses in the period incurred.

#### **Equipment and Furniture**

Equipment and furniture represents personal property that is movable. Capital equipment, furniture, and fixtures are defined as any individual item costing \$5,000 or more and having a useful life of more than one year. Capitalized costs of equipment, furniture, fixtures and equipment are those costs associated with the acquisition or construction of the property. Donated equipment is recorded at the fair market value as of the date of the gift.

Component parts costing \$5,000 or more should be capitalized provided the item has a useful life of more than one year. A component part can be defined as any item that cannot stand-alone and is considered an integral part and/or an enhancement to an existing piece of equipment. Component parts costing less than \$5,000 are expensed to operations.

#### Acquisition costs include:

- Invoice price
- Transportation

- Installation
- Duty
- In-transit insurance

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

### **Software**

Software that is acquired, internally developed, or modified solely to meet the College's internal needs and costs \$5,000 or more with a useful life of one year or more may be capitalized. All costs incurred during the preliminary stage of development should be charged to expense (vendor demonstrations, evaluating technology). Costs associated with the application development stage should be capitalized (software purchase costs, fees paid to consultants, payroll costs of employees directly associated with software development, interest costs incurred to fund software). Costs incurred during the post-implementation stage should be expensed (training and maintenance).

### **Library Collections**

All library books are capitalized. Library books that are purchased should be recorded at cost. Library books acquired by donations are recorded at fair market value. Library collections are not depreciated.

### **Art Collections**

Art Collections that are purchased should be recorded at cost. Art Collections acquired by donations are recorded at fair market value. Art Collections that have a cost of \$5,000 or greater are capitalized. Art Collections are not depreciated. For financial statement purposes they are recorded as Other Assets. Any proceeds from the sale of collection items will be used to acquire other items for the collection.

### **Leases**

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 College at the end of the lease term.
2. The lease contains a bargain purchase option that permits the College 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 lease 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 Finance Department during the review of the lease contract. An operating lease will be treated as an operating expense and charged to the appropriate expense account in the current year.

### **Campus Improvements**

This subcategory includes infrastructure items such as parking lots, street and parking lot lighting, roads, sidewalks, athletic field improvements and storm sewers. It is often difficult to determine when to capitalize or not capitalize work on improvements other than buildings when such fixed assets already exist. Work to maintain infrastructure in existing condition would be an expense. Work to improve infrastructure would be capitalized.

### **Land Held in Appreciation**

Land held in appreciation are assets that are purchased with the intent of being sold. They are not depreciated. Houses purchased for the “walk-to-work” program fall under this category if sold within a year. Houses held for over a year should be categorized as other campus buildings and depreciated.

### **Donated Assets**

Donated property, buildings, or equipment and furnishings that meet the requirements for capitalization and that will be in service by the College will be capitalized at an appraisal value of the donation. The property must be appraised by an independent appraiser in order to be capitalized. Donated assets that will be resold should not be capitalized.

### **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.

### **ASSET DEPRECIATION METHODS**

With the exception of land, library collections, and art collections all 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 capitalized costs.

<b>Asset Category</b>	<b>Salvage Value</b>	<b>Useful Life</b>
Campus Buildings	10%	40 yrs.
Other Campus Buildings	10%	25 yrs.
Leasehold Improvements	0%	3 yrs.
Campus Improvements	10%	20 yrs.

### **Equipment and Furniture**

The Useful Life of equipment and furniture varies depending on the asset type. There is no salvage value for equipment and furniture. The following is a list of asset types and useful lives:

<b>Asset Type</b>	<b>Useful Life</b>
Air Conditioners	6 yrs.
Athletic Equipment	6 yrs.
Audio Visual Equipment	10 yrs.
Appliance Miscellaneous	6 yrs.
Brass Instruments	10 yrs.
Chairs	10 yrs.
Copy Machines	6 yrs.
Desks	10 yrs.
Dishwashers	6 yrs.
Entertainment Centers	10 yrs.
File Cabinets	6 yrs.
Facilities Grounds Equipment	6 yrs.
Facilities Housekeeping Equipment	6 yrs.
Fax Machines	6 yrs.
Food Service Appliances	6 yrs.
Facilities Maintenance Equipment	6 yrs.
Furniture Miscellaneous	10 yrs.
Facilities Miscellaneous Equipment	6 yrs.
Lab Instruments	6 yrs.
Mattresses and Bed frames	10 yrs.
Microwaves	6 yrs.
Network Hardware	3 yrs.
Network Software	6 yrs.
Office Equipment Miscellaneous	6 yrs.
Photography Equipment	6 yrs.
Pianos	20 yrs.
Classroom Podiums	10 yrs.
Percussion Instruments	10 yrs.
Refrigerators	6 yrs.
Stage Equipment	10 yrs.
Sofas	10 yrs.
String Instruments	10 yrs.
Stoves and Ovens	6 yrs.
Servers	6 yrs.
Tables	10 yrs.
Televisions	6 yrs.
Vacuum Cleaners	6 yrs.
Vehicles	5 yrs.
VCR's	6 yrs.
Washers and Dryers	6 yrs.
Wind Instruments	10 yrs.
Work Stations	6 yrs.

## **DEPRECIATION EXPENSE**

Depreciation of capitalized assets will commence in the year the item is placed into service or use. Furniture and fixtures will be depreciated proportionately monthly. The depreciation will begin in the month purchased and spread over the useful life. One half year's depreciation will be recorded in the year of acquisition for Campus Buildings, Other Campus Buildings, and Campus Improvements.

## **TRANSFER OF FIXED ASSETS**

When fixed assets are moved from one location to another, updated information regarding this transfer must be submitted to the Finance Department by the responsible party on an Inventory Control Form. This form can be found on the Finance Department's website.

<http://www.snc.edu/financedepartment/staff/forms.html>

## **DISPOSALS OF FIXED ASSETS**

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

Departments that wish to dispose of an asset, whether by trade-in, sale, discard, or donation must seek prior approval from the Director of Finance. Assets can only be sold once it is determined that the equipment has no value to any department within the College. For items with sales proceeds net of sales tax of \$1,000 or greater, 25% of the proceeds will go back to the department. Special rules may apply to grants and endowments. The responsible party for the item to be deleted must complete the Inventory Control Form and forward the form to the Finance Department. This form can be found on the Finance Department's website.

<http://www.snc.edu/financedepartment/staff/forms.html>

Because the notification of disposal of assets is decentralized, the following schedule will be followed to retire fully depreciated assets from the books of the College.

<u>Write Off Year</u>	<u>Asset Age</u>
2009-2010	Purchased in 1971 or before
2010-2011	> 30 years
2011-2012	> 25 years
FY13 and after	> 20 years

This schedule only includes items with an original cost of less than \$25,000 and excludes pianos and musical instruments.

