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 Accounting Services 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.

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| --- | --- |
| Asset Category | Capital Threshold |
| 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 a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. The lease must depend on the use of an identified asset and convey the right to control the use. Lease accounting only applies to leases of property, plant, and equipment. It does not apply to leases of intangible assets, leases to explore for or use nonregenerative resources, leases of biological assets, leases of inventory, and leases of assets under construction.

A lease is considered a Finance (Capital) lease if it meets any of the following tests:

1. The lease grants the lessee an option to purchase the underlying asset an option to purchase the underlying asset that the lessee is reasonably certain to exercise..
2. The lease term is for the major part of the remaining economic life of the asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset the criterion should not be used for purpose of classifying the lease.
3. The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments equals or exceeds substantially all of the fair value of the underlying asset..

The determination of whether a lease is financing (capital) or operating will be made by the Accounting Services Department during the review of the lease contract.

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 with- in 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.

|  |  |  |
| --- | --- | --- |
| Asset Category | Salvage Value | Useful Life |
| 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:

|  |  |
| --- | --- |
| Asset Type | Useful Life |
| 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 Accounting Services Department by the responsible party on an Inventory Control Form. This form can be found on the Accounting Services 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 Controller. 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 Accounting Services Department. This form can be found on the Accounting Services 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.

Write Off Year Asset Age

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.

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