



Catholic Diocese of Columbus

Policy Guideline
 Diocesan Parish School All

210.0 - Capitalization of Fixed Assets

The Financial Accounting Standards Board recommends that not-for-profit organizations recognize the declining value of long-lived assets (commonly referred to as Fixed Assets) through recording depreciation expense over the useful life of the asset. A number of factors will be relevant to properly recognizing fixed assets and recording the correct amount of depreciation in an entity's financial statements. The factors include: determine whether the asset qualifies for capitalization; what depreciation method to use; the amount of depreciation expense to recognize in the year of acquisition; the useful life to use; and what occurs when the asset is disposed of.

For purposes of this policy, the date of acquisition for construction 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 provides guidance in determining whether to capitalize an asset or expense the cost in the year of acquisition.

Land

All land is to be capitalized. The amount capitalized equals the cost of the land plus ancillary costs that can include such items as legal and title fees, surveying fees, appraisals and negotiation fees, damage payments, site preparation costs and costs related to demolition of unwanted structures.

Buildings

All buildings with a total acquisition or construction cost greater than \$5,000 are to be capitalized. The amount capitalized includes, in addition to the purchase or construction cost, ancillary costs such as professional/architect fees, appraisers, costs of fixtures permanently attached to the building, cost related to demolition of unwanted structures prior to construction.

Building Improvements

Building Improvements involves three categories: improvements; replacements; and additions. Each has a specific test related to capitalization.

Improvements – defined as extraordinary repairs, renovation or betterments. These will be capitalized if one or more of the following criteria are met:

- the assets useful life is extended
- the capacity of the asset is increased
- operational costs are substantially reduced.

If the total of such expenditures exceed \$5,000 then the costs are to be capitalized. The exception is where only a small portion of the building is being converted or remodeled for a new purpose, the cost should not be capitalized.



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Replacement – involves an expenditure to replace a current fixed asset or portion thereof. The cost of the replacement is capitalized if the cost is \$5,000 or more.

Addition – if the project expands the square footage of the building, the cost of the addition should be capitalized if the total for the project is \$5,000 or more.

Equipment

Equipment with a unit cost of \$5,000 or more are to be capitalized.

Furniture and Fixtures

Generally, the cost of individual furniture or fixtures will be less than the \$5,000 threshold for capitalization. If an individual item is purchased with a value of \$5,000 or more, the Diocesan Finance Office should be contacted for a determination of whether the item's cost can be capitalized. If furniture or fixtures are purchased as part of a building renovation or addition, and the total for the project exceeds \$5,000, then the furniture or fixture should be capitalized.

Software Development

Software development costs, where new functionality is created, with a total cost of \$99,000 or more, are to be capitalized.

Depreciation Method

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

Recognition of Depreciation Expense

A half year's depreciation expense will be recognized in the year a fixed asset is acquired, regardless of the point in the fiscal year at which the actual acquisition occurs.

Useful Lives

Because the nature of assets vary greatly, only general guidelines for useful lives are presented here. If an asset is acquired that meets the dollar limit for capitalization, the entity is to contact the Diocesan Finance Office for assistance in determining the useful life to assign to the asset.

Land – generally, land is not depreciated

Buildings – 40 years

Building Improvements – depreciated over the remaining life of the building, but typically not to exceed 20 years

Equipment – 3 to 20 years, depending on the type of equipment.

Furniture and Fixtures – 3 years



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Software Development – 5 years

Disposition of Fixed Assets

When a fixed asset is disposed of, any remaining net asset value (i.e. fixed asset cost less accumulated depreciation) is to be expensed in the year of disposal.