

Date Updated and Published: July 2015**Revision History:****Review: Annually****Last Date Reviewed:** November 2019

Effective August 1, 2015 and thereafter, this policy sets forth procedures utilized to identify and control fixed assets within Bethel University, which includes maintenance of the assets regarding value, category, life, method of depreciation, and disposal. Recordkeeping for and reporting of fixed assets are also addressed herein.

PURPOSE OF FIXED ASSETS

In general, classifying assets as fixed assets, or capitalizing the assets, allows for the delay of the recognition of expenses by recording the expenses as long-term assets. The process of depreciating, or decreasing the value of assets over time, is beneficial to the University, as it allows the costs of assets to be spread over a specified period of time decreasing the negative impact of the expenses against revenues and allows the costs of fixed assets to be recognized over the assets estimated useful lives. Bethel University follows generally accepted accounting principles (GAAP) in the control of assets that are capitalized.

DEFINITION OF A FIXED ASSET

An asset purchase is classified as a fixed asset if it meets the following criteria:

1. The purchase is for a tangible asset used in the day-to-day operations of the University;
2. The benefit derived or enhanced due to this asset will be for a period exceeding one year; and
3. The cost of the asset (or determined value in the case of a donated asset) is \$10,000 or more.

All assets purchased or costs incurred for maintenance of an existing fixed asset that do not meet the above criteria will be expensed at the date of purchase.

VALUATION OF FIXED ASSETS

1. Purchased Assets: The value of purchased assets will be the historical cost plus any additional costs relating to the acquisition that are necessary to make the asset usable.
2. Constructed Assets: The value of constructed assets is the cost necessary to place the asset in service for its intended use, including costs of construction, fees, interest, temporary storage, and any other costs necessary to complete the construction.
3. Donated Assets: The value of donated assets will be the appraised or fair market value at the time of the donation plus any additional costs relating to the acquisition, such as legal fees, title fees, professional fees, appraisal fees, survey fees, site preparation fees, cost of demolition of unwanted structures, etc.

CATEGORIES OF FIXED ASSETS

Assets meeting the criteria of a fixed asset will be classified in one of the following categories:

Land – Category includes real estate without any improvements; any buildings on the land will be valued separately from the land and will be recorded in the buildings general ledger account and depreciated as such.

Buildings (including all building components) – Category includes all costs related to the acquisition or construction of a building including purchase price, appraisals, testing, site preparation, architectural fees, consultation fee, legal fees, foundations, walls, floors, windows, doors, stairways, roof, interior fixtures, floor coverings, plumbing, sewage, ventilation, fire detection, heating and air systems, elevators, and labor.

Building and Land Improvements – Category includes all major improvement projects that will extend the estimated useful life of an asset, add new capabilities to an asset, and/or increase the efficiency of an asset. Such project costs are usually for improvements that are permanently attached to a building or grounds. This includes addition of a new roof, work on sewer lines, and work on computer wiring, or modifications to outside areas, such as sidewalks, parking lots, fences, and yard lighting. All parts and labor of the improvements project will be capitalized. Minor improvements projects that do not extend the useful life of the asset, such as painting or replacing carpet, will be considered routine

maintenance and expensed in the period incurred.

Equipment and Furniture – Category includes all assets that are tangible personal property that are not permanently affixed to a building or grounds. Additionally included and capitalized within this category are the costs of installation, transportation, taxes, in-transit insurance, or any other costs associated with the modification, attachments, or accessories necessary to make the property fit for its intended purpose. Examples of assets in this category include furniture, fixtures, computer equipment, musical instruments, and nursing equipment.

Automobiles – Category includes any vehicle purchased for use by Bethel University, such as vehicles used by Bethel University employees, vehicles used to maintain the grounds of the university (e.g., tractors, backhoes), vehicles used to transport students and sponsors for sports related purposes (e.g., vans, buses), as well as vehicles used in sport related activities (e.g., boats).

Capitalized Leases – Category includes tangible property that is leased by Bethel University and conforms to the capital lease GAAP rules. One of the following must be true for the lease to be considered a capital lease

1. The ownership of the asset shifts to Bethel University at the end of the lease period;
2. Bethel University can purchase the asset at the end of the lease period for a below-market price;
3. The lease period is at least 75% of the useful life of the asset and the lease cannot be cancelled during that time; or
4. The present value of the lease payments at the beginning of the lease is at least 90% of the fair value of the asset.

If the lease does not meet one of the prior four criteria, it is considered an operating lease, which is not capitalized and is expensed as incurred.

Construction in Progress – This category is essentially a holding account used to record costs associated with the construction of a building prior to the building being ready for its intended use. Costs associated with the construction of a structure, plus any additional fees and expenses as defined in the building category, are recorded and are not depreciated until the construction is

complete. When the structure is complete, the asset cost is transferred to the Buildings account and Construction in Progress is decreased accordingly.

Capitalized Interest Costs – By capitalizing interest costs, the University captures the total investment in an asset. This category is used to capture such costs, which will be capitalized and added to the cost of construction in progress according to the guidelines set forth by the Financial Accounting Standards Board (FASB) in Statements 34 and 62. The amount to be capitalized is the amount of interest that is paid that would have been avoided if the assets had not been acquired or constructed, with any proceeds from these transactions offsetting the amount capitalized.

METHOD OF DEPRECIATION

In accordance with GAAP, Bethel University adopted the straight-line method of depreciation for all categories of fixed assets. Under the straight-line method, the cost of the asset is divided by the estimated useful life of the asset to determine depreciation expense per year of the asset's life. One-twelfth of the annual depreciation is expensed each month. Except for the year the asset is placed in service and the last year of the asset's estimated useful life, using the straight-line method, depreciation expense is constant over the asset's estimated useful life.

ASSET LIFE

Each category of fixed assets has its own estimated useful life, or years in which it will be depreciated. Bethel University adopts the following estimated useful lives for asset categories:

Buildings	40 years
Building Improvements	20 years
Land Improvements	20 years
Equipment and Furniture	7 years
Computer equipment	5 years
Automobiles	5 years
Capital Leases – Computers	5 years
Capital Leases – Other Equipment	7 years
Land	Not Depreciated

GENERAL LEDGER ACCOUNTS FOR FIXED ASSETS

All assets will be recorded and maintained in MIP, the University's accounting software. General ledger accounts will be used by accounts payable to record the purchase of an asset or a maintenance cost that is determined to be a fixed asset. The costs will be entered as the invoices are received with the following being the debit accounts (accounts payable is the credit account):

Buildings	06-1000-1830001
Building Improvements	06-1000-1830001
Land Improvements	06-1000-1830001
Equipment and Furniture	06-1000-1830000
Computer equipment	06-1000-1830000
Automobiles	06-1000-1830003
Capital Leases	06-1000-1850000
Land	06-1000-1830002

MIP FIXED ASSET MODULE

The invoices that are coded to the fixed asset accounts in the general ledger will also be entered into the MIP Fixed Asset Module monthly.

PROCESS OF ACQUIRING A FIXED ASSET AND DEPRECIATION

1. The acquisition of a fixed asset starts with the creation of an approved purchase order (PO) for an item that meets the definition of a fixed asset. The PO is coded to the correct general ledger account based on the category of asset.
2. The invoice for an approved fixed asset purchased is entered in due course as other invoices are recorded with the debit account being the proper general ledger account.
3. The asset is entered into the MIP Fixed Asset Module, as it appears in the fixed asset accounts in the MIP general ledger, using the correct valuation, category, general ledger account number, depreciation method, and asset life.
4. Depreciation is calculated monthly and posted to the MIP general ledger.
5. All depreciation and fixed asset categories are reconciled to the MIP general ledger on a monthly basis.

OTHER ASSETS

Gifts in Kind – Donated assets, or donated work on a capital project, that meet the definition of a fixed asset are recorded in the proper category as fixed assets and depreciated as outlined above.

Library Books – Bethel University does not depreciate library books (expensed as purchased).

DISPOSALS OF FIXED ASSETS

Disposals of fixed assets are recorded in the MIP fixed asset module as the transaction occurs. The MIP general ledger is adjusted for disposals when depreciation for the month is transferred.

PHYSICAL LOCATION OF FIXED ASSET

The department number of the responsible purchaser of a fixed asset is noted in the fixed asset record in the MIP Fixed Asset Module. The department number will be used to generate a listing of assets, which will be provided to the department heads at least annually for review and reconciliation. Any discrepancies will be investigated and the records will be adjusted to reflect the difference. All departments should report any disposed, lost, or stolen asset to the business office immediately. Any transfer of assets to another department should also be reported in the same manner.

RESPONSIBLE PARTIES

Business Office personnel, various departments initiating the purchase

PUBLICATION

This policy is published on the University website.