ARCHDIOCESE OF SAINT PAUL & MINNEAPOLIS

United in Faith, Hope and Love

Lunch and Learn Series Capitalization Policy Recap

8/9/2023

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L&L Standard Expectations

- Recorded Session
- Relatively fast paced
- You will receive resources at the end that do go into detail
- Please ask your questions in the Q&A box (not Chat)
- Q&A will be at the end
- Users can drop off if we go long

Capitalization Policy Recap

- What is Capitalization?
- What is a Capitalization Policy?
- Why does your Parish need a Capitalization Policy?
- Who establishes the Capitalization Policy?
- Where can I find a Sample Capitalization Policy?

What is Capitalization?

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- Recording the cost of acquiring or improving a fixed asset.
- Reports on Statement of Financial Position
  - Not on Statement of Activities
- Tangible Assets
- Useful Life of One Year or more
- Depreciated
- Accurate Representation of Parish’s Financial Performance

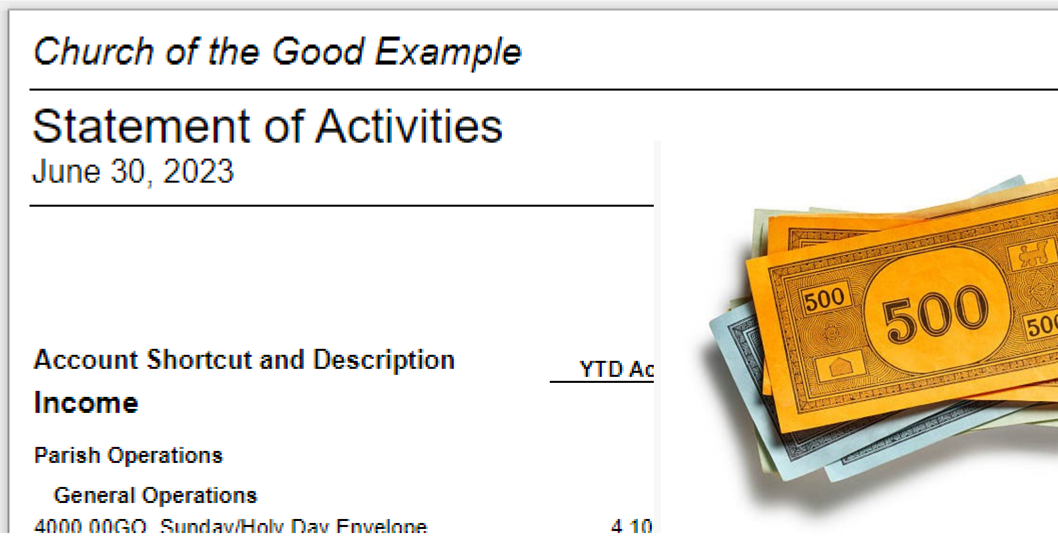
What is Capitalization?

- Remember Monopoly?
  - Monopoly Money = Expenses
  - Red Hotels = Fixed Assets

Expenses	Capitalized Fixed Assets
Statement of Activities	Statement of Financial Position
Less expensive items	More expensive items
Useful Life is less than 1 year	Useful Life is more than 1 year
No Depreciation	Depreciated

Examples of Expenses

- Worship Supplies
- Office Supplies
- Salaries & Benefits
- Program and Outreach Expenses
- Maintenance & Repairs



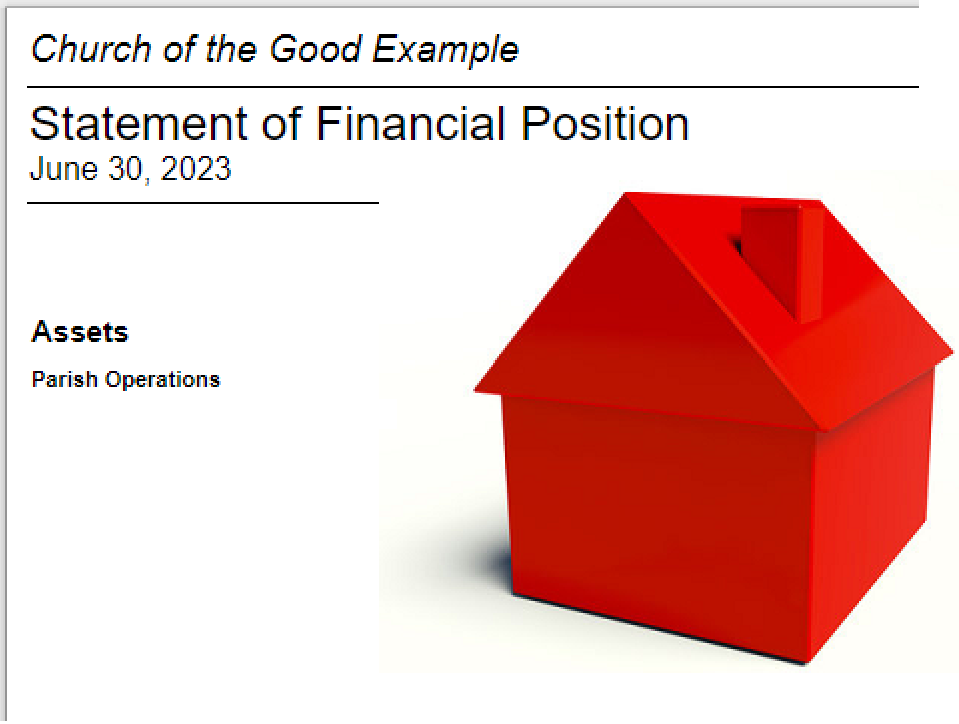
Church of the Good Example

Statement of Activities
June 30, 2023

Account Shortcut and Description	YTD Ac
Income	
Parish Operations	
General Operations	
4000.00GO Sunday/Holy Day Envelope	4,10

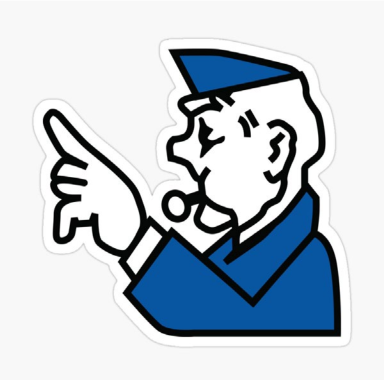
Examples of Capitalized Fixed Assets

- Building Construction/Acquisition
- Land Purchase
- Building Improvements
- Furniture & Fixtures
- Vehicles
- Religious Art & Artifacts
- Historical Preservation/Restoration
- Major Repairs/Restorations



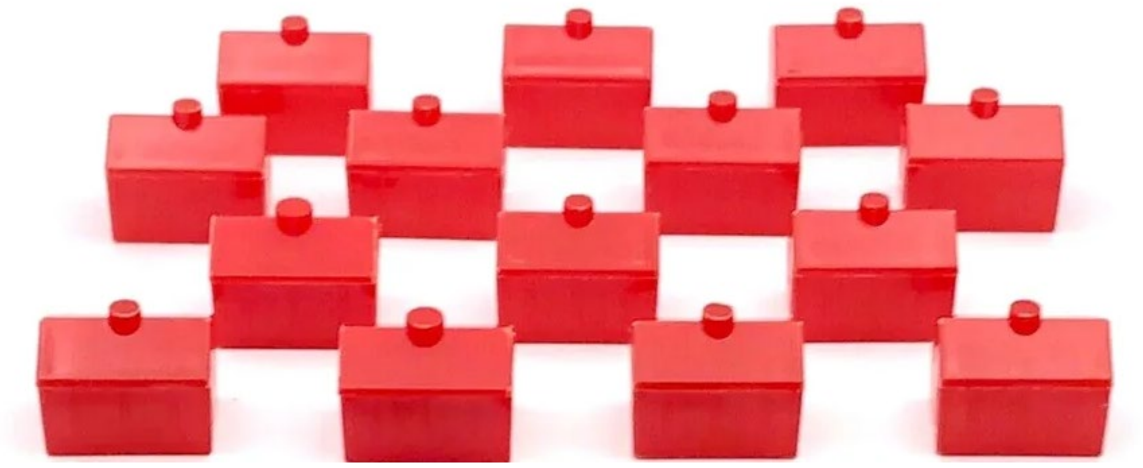
What is a Capitalization Policy?

A set of guidelines and criteria, established by the parish, that dictate when certain expenditures should be capitalized as long-term assets on the balance sheet, rather than being immediately expensed on the income statement. This policy helps ensure consistent and transparent financial reporting by outlining the threshold and rules for determining which expenses are significant enough to warrant capitalization.



What are the components in a Capitalization Policy?

- Threshold
- Criteria
- Classification of Capitalized Items
- Depreciation Guidelines
- Document and Approval Process
- Recordkeeping and Reporting
- Roles and Responsibilities
- Review, Updates and Disposal



What is a Threshold for Capitalization?

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- Threshold for Capitalization
  - Minimum dollar amount at which an item is recorded as a Fixed Asset.
  - Distinguishes between routine expenses and significant investment in long-term assets.
  - Should make sense for your parish.
- Example:
  - If Parish Capitalization Threshold is $1,000
    - Laptop purchased for $1500 is Capitalized
    - Laptop purchased for $800 is Expensed

What is the Criteria for Capitalization?

- Criteria for Capitalization
  - Expected Useful Life
  - Threshold for Capitalization
  - Does it enhance asset’s value or functionality
  - Does it generate economic benefits

- Example:
  - “Fixed assets must cost $10,000 or more and have a useful life of more than a year. Any purchases not meeting both criteria will be recorded as an expense.”

What are Classifications of Capitalized Items?

- Classification of Capitalized Items
  - Equipment
    - Movable Equipment
    - Fixed Equipment
  - Land
  - Land Improvements
  - Buildings
  - Building Improvements
  - Technology

What are Depreciation Guidelines?

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- Depreciation Guidelines
  - Specifies Method (Straight Line)
  - Specifies Period (Useful Life)
  - Specifies Assets NOT Depreciated:
    - Land
    - Works of Art
    - Historical/Religious Treasures

- Land Improvements 10-20 years
- Infrastructure 5-20 years
- Buildings 15-90 years
- Software 3-7 years
- Building Improvements 10-80 years
- Equipment 3-20 years
- Leasehold Improvements 5-20 years
- Vehicles 3-5 years

What is included in a Capitalization Policy?

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- Document and Approval Process
  - Pastor’s Authorization
  - Fund Availability/Budget Limitations
  - Secondary Approval
    - Technology Purchases Approved by IT Dept
    - Lawncare Equipment Approved by Grounds Manager
  - Documentation Requirements
    - Original Invoice/Contract
    - Multiple Packing Slips/Invoices
    - Warranty Information

What is Recordkeeping and Recording?

- Recordkeeping and Reporting
  - Accounting Requirements
    - Correct Account Number
    - Inclusion in Fixed Assets Module or Fixed Assets Spreadsheet

What are Roles and Responsibilities?

- Roles and Responsibilities
  - Pastor and Finance Council
    - Available Funds for Acquisition
    - Approval of Purchase
  - Accounting Manager
    - Report to Business Administrator
    - Fixed Assets Inventory
    - Accounting in Compliance with Standards
    - Depreciation and End of Year Entries
  - Department Head
    - Reading and Understanding Fixed Assets Policy
    - Maintenance and Repair of Fixed Assets in their Department
    - Notifying Accounting Manager if there is a change in status of Fixed Asset

What are Review and Updates?

- Review and Updates
- Set Expectations
  - Fixed Assets Maintenance
  - Recordkeeping Update
  - Depreciation Entries (i.e., Monthly)
  - Lost/Stolen Property
- Review and Update Capitalization Policy itself
  - Remains relevant and aligned with parish financial needs and goals.

Why does your Parish need a Capitalization Policy?

- Maintains Financial Transparency
- Ensures Accurate Reporting of Assets
- Supports Effective Financial Management
- Allows for Informed Decisions about Resource Allocation/Investments

Who establishes the Capitalization Policy?

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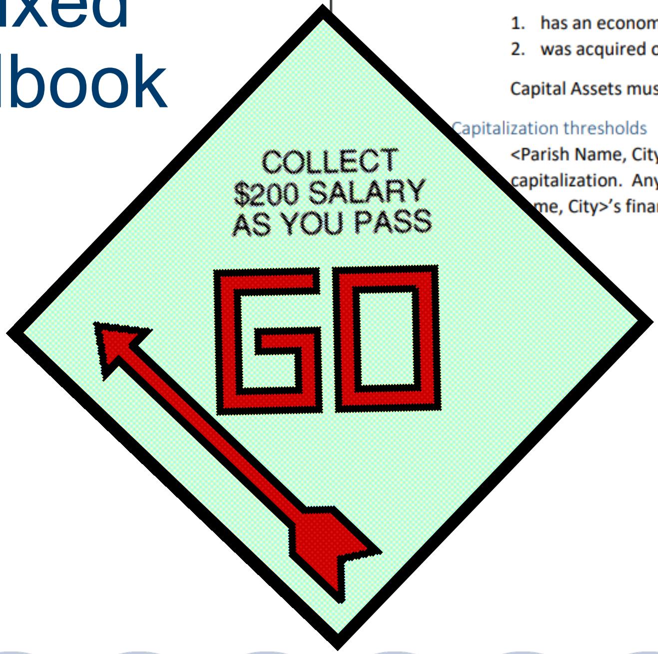
- Parish Leadership Team
  - Pastor
  - Finance Council
  - Trustees
  - Business Administrator
- Consult with:
  - Parish Department Heads
  - Legal Experts
  - External Auditors
  - Parishioners

Sample Capitalization Policies

- Basic
- Comprehensive
- Located in Fixed Assets Handbook



Appendix B – Capitalization Policy Sample (Basic)

Purpose

This accounting policy establishes the minimum cost <capitalization amount> that shall be used to determine the capital assets that are to be recorded in <Parish Name, City>'s annual financial statements (or books).

Capital Asset definition

A "Capital Asset" is defined as a unit of property that:

1. has an economic useful life that extends beyond 12 mon
2. was acquired or produced for a cost of <$____> or more.

Capital Assets must be capitalized and depreciated for financ

Capitalization thresholds

<Parish Name, City> establishes <$______> as the threshold capitalization. Any items costing below this amount should b me, City>'s financial statements (or books).

Appendix C – Capitalization Policy Sample (Comprehensive)

01. Policy Statement

The purpose of this policy is to set forth the guidelines for the and reporting control of the <Parish Name, City> assets, including accountability over the assets, meeting financial reporting needs, and generating asset management information.

02. Reason for Policy

This document is intended to describe the standard policies required for recording new and existing assets, changes in assets and the methodology of record keeping. In addition, it is intended to provide steps to assist <Parish Name, City> personnel in the safeguarding, accounting for and disposing of the organizations assets. Legal responsibilities require that <Parish Name, City> accurately record and account for capital assets on a regular basis. Because each department engages in the acquisition, transfer, disposal, and use of capital equipment, this policy sets forth the roles and responsibilities in regard to capital assets.

03. Roles and Responsibilities

The major responsibilities each party has in connection with the Capital Assets Policy & Procedures are as follows:

Questions and Answers

Resources

- Fixed Asset Handbook
  - Capitalization Policy Sample (Basic) page 63
  - Capitalization Policy Sample (Comprehensive) page 64
- 2022 Lunch & Learn – Fixed Asset Initiative

Thank You

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