

PARISH PROPERTY INVENTORY PROCEDURES
FIXED ASSET GUIDELINES

Objective

Although nearly all parishes have a significant investment in fixed assets; e.g., land, buildings, machinery, furniture, and equipment, many have inadequate fixed asset records and need to improve their fixed asset reporting. These guidelines recommend methods and procedures to establish or improve fixed asset records, accounting, and reporting. In addition, these guidelines outline how fixed asset records can be used to improve controls, accountability, and operational efficiencies in managing the fixed assets.

These guidelines also present an overview of fixed asset accounting and reporting, with an emphasis on Generally Accepted Accounting Principle requirements (GAAP).

1. Fixed Asset Records Can Meet Important Information Needs

Fixed asset records provide a basis for your records to be in conformity with GAAP. In addition, they can be used to supply parishes with information to determine: insurance values, replacement costs, excess assets, control and accountability, maintenance costs, and total costs of services.

Current fixed asset records should provide lists and summaries of all assets owned, accurate historical costs, current replacement cost estimates, and each asset's location. This information is important for determining insurable values and substantiating loss claims.

Including replacement cost estimates in fixed asset records will help you prepare long-term capital budgets more knowledgeably. Your estimates of assets' service lives can help you determine overall replacement policies and minimize fixed asset management problems. For example, replacing an asset before the planned year may reflect improper use by employees (indicating a need for additional training), improper maintenance, or an unrealistic estimated service life.

Complete and accurate records can help you identify excess fixed assets that can be sold or reassigned to a more productive use. By comparing an excess fixed assets list with budget requests, you can identify possible asset reassignments. Accurate records can also fix responsibility for fixed assets' custody, location, and use. Periodic inventories of these assets further enhance control.

With detailed fixed asset records for equipment, you can also develop a preventive maintenance program. If you incorporate the manufacturers recommended maintenance timetables into your records, you may avoid major overhauls and extend the equipment's useful life.

Finally, with fixed asset records you can more accurately determine the total cost of using fixed assets for support services. This can help you identify and support reimbursable costs under grant programs. You can also more readily compare alternative approaches in providing a service; e.g., by developing analyses of costs for "in house" versus outside contracting.

2. Reporting and Accounting Basis

To satisfy GAAP requirements, you should record and report fixed assets at cost. If that is not feasible, record them at estimated cost. Donated fixed assets should be reported at their estimated fair value when you receive them.

The cost of acquired or constructed fixed assets also include any ancillary charges for placing the assets in their intended location and making them ready for use. These ancillary charges include legal and title fees, appraisal fees, broker's fees, damage payments, architectural and engineering fees, site preparation and demolition, testing, transportation, and installation.

3. Other Reporting Requirements

All fixed assets should be reported by major class - typically land, buildings, improvements other than buildings, furniture and fixtures, machinery and equipment, and construction in progress.

It is important to establish a policy to determine when fixed assets under construction are substantially completed and put to use. The policy should establish the period in which you should adjust construction in progress accounts to reclassify construction costs into the appropriate fixed asset classifications.

4. Establishing a Fixed Asset Subsystem

Parishes need a fixed asset accounting and reporting subsystem to meet reporting requirements and other information needs. Such a subsystem includes the policies, procedures, and systems for recording and using fixed assets as well as the fixed asset information itself. In the following paragraphs we describe an approach to establishing and maintaining a fixed asset subsystem. The five steps of the approach are:

- A. planning and establishing fixed asset policies,
- B. inventorying the fixed assets,
- C. assigning values and lives to the fixed assets,
- D. processing and reporting fixed asset information, and
- E. maintaining the subsystem.

5. Planning and Establishing Fixed Asset Policies

Planning and establishing policies is an essential step in efficiently developing a consistent and logical fixed asset accounting and reporting subsystem. Surveying user needs and establishing accounting and capitalization policies before you implement a subsystem will save time and effort.

6. Surveying User Needs

To plan a fixed asset accounting and reporting subsystem, you should first conduct a survey of the parish's information needs. This allows you to review all accounting requirements and determine both internal management and external information needs.

Parish's information needs include cost accounting, financial reporting and disclosure, budget forecasting, asset and accountability and use, maintenance scheduling, audit compliance, asset replacement budgeting, insurance, and identifying excess assets. After establishing information needs, you should determine what data can satisfy them. This analysis will help you establish fixed asset policies.

7. Establishing Policies

Establishing and documenting fixed asset accounting policies before implementing a fixed asset subsystem is critical. Policy decisions include:

- A. Which asset types should you include?
- B. Which assets should you account for individually and which should be grouped? For example, should the cost of a chair include one or a group of chairs?
- C. What should your capitalization policy be? This sets the requirements for minimum costs to be accounted for and useful lives. (The diocese recommends that any asset that has a useful life of over one year and has a cost in excess of \$50 be inventoried.)
- D. What are the expected useful lives for the different kinds of fixed assets?
- E. What information do you need to begin and maintain the subsystem? Determine data base requirements, the coding system, and required reports.
- F. What forms do you need to secure needed information? Their design must ensure complete information and efficient processing.
- G. How will you establish the subsystem? A work plan should fix responsibilities and establish time estimates. In particular, you must thoroughly plan the initial inventory.
- H. What other policy decisions should you establish? Make all policy decisions before beginning work on the fixed asset subsystem. This includes all aspects of the remaining steps inventorying, assigning carrying values and lives, processing and reporting, and maintaining.

8. Establishing Capitalization Policies

Establishing the capitalization policy; i.e., determining what to record and report as fixed assets is also vital. By definition, fixed assets must have a useful life of more than one year. You should assign useful lives for each class of fixed assets; e.g., buildings, and determine the minimum cost for recording assets in each class. The diocese recommends a minimum cost of \$50.

Your parish should also establish its capitalization criteria (value, life, etc.) for reporting additions and improvements to existing fixed assets. Major additions, including those that significantly prolong a fixed assets's economic life, should be capitalized. Normal repairs that merely maintain the asset in its present condition should not be capitalized.

The capitalization policy directly affects the effort required to establish fixed asset records. A higher capitalization limit reduces the number of fixed assets recorded in the subsystem and thus reduces the records necessary for establishing and controlling fixed asset costs. Setting the capitalization limit too high, however, reduces the amount of control.

9. Inventorizing the Fixed Assets

Inventorizing is generally the most time-consuming step in establishing and maintaining a fixed asset accounting and reporting system. The information recorded about each asset comprises the subsystem's data base. Thus, to ensure the efficient collection of all needed information in useable form, you should make all policy decisions before beginning the initial physical inventory. During this initial physical inventory, all appropriate fixed assets should be identified and permanently tagged.

Who should take the initial physical inventory? How should it be taken? In most cases employees or parishioners can perform this procedure.

For more easily defined assets -- land, buildings, equipment, furniture and fixtures, vehicles, etc. -- local school students and employees can help in inventorizing such items (especially if knowledgeable personnel are available as "supervisors").

Proper training of inventory personnel is essential. Instructions should cover such areas as tagging, asset grouping consistent classification, and information-gathering documents. During training, inventory takers should learn what information is needed and what the uniform abbreviations are for each category.

Exhibit B shows a form that can both document the fixed asset physical inventory and input information for manual or computerized data processing. We suggest you design a similar form that meets your parish's information needs. After formal instruction, inventory teams should inventory a test area and instructors should review the results for completeness and accuracy. The instructors should resolve any questions, mistakes, or misunderstandings before the teams take the actual physical inventory. An example of step by step instructions is noted in exhibit A.

Taking a complete physical inventory requires extensive planning. A written plan and timetable should identify the inventory teams, locations, and inventory items. The teams should know about existing departmental fixed asset records and how the identification and tagging of assets should be conducted. They should also be aware of potential problems; e.g., locating specific fixed assets.

The inventory takers should permanently tag each fixed asset meeting capitalization requirements (except land and buildings). The tag should show the parish's name and the assets's unique identification number, which the inventory takers should enter on the inventory form. It is a good idea to issue tags sequentially, account for each one, and instruct teams to place the tags in a uniform, easily seen location for future identification.

You can take the inventory in phases by room, department, or building. If you complete each phase during a relatively short period, you can minimize the effect of movement of equipment during the physical counts.

Inventories are preferably taken at times of least activity, particularly for vehicles and other movable equipment. Establish procedures to make sure that each asset is counted, and counted only once, during this period.