



POLICIES AND PROCEDURES

Originator: Vice President for Business Affairs
Subject: Capitalization of Collections
Date: May 7, 1996

A. BACKGROUND

A new statement of Financial Accounting Standard #116 (SFAS116) established by the American Institute of Certified Public Accountants (AICPA), allows for colleges to adopt a policy regarding whether Collections should be expensed or capitalized. This certainly has not been a major point of contention for us in our limited history. Older, larger universities, however, invest in a variety of art and religious collections. Concordia Seminary recently disclosed that they had been storing a very rare original manuscript in Martin Luther's own hand that had been sent to them by a U.S. Army chaplain in World War II. They were now returning the document to Germany.

We have never purchased a collection; however, we have received one as a gift and it is displayed in our library. I do not foresee at this time that the University would ever choose to invest in so unstable of an investment as a collection, so after consultation with our auditors I would propose that we adopt a policy to capitalize and depreciate any purchase or receipt of a collection. Should the University receive a work of art or historical treasure such as the Luther manuscript, we would not have to depreciate it if we could prove the following:

1. The economic benefit or service potential is extraordinarily long-lived.
2. The asset individually has cultural, aesthetic or historical value that is worth preserving perpetually, and
3. The University has the technological and financial ability to protect and preserve the asset's undiminished economic benefit/service potential and that the University has demonstrated that ability.

B. POLICY

Collections or items of collection quality such as, but not limited to, works of art, historical treasures and other similar collection items will be capitalized on a prospective basis.

C. GUIDELINES

The donation of a work of art would be recognized as unrestricted income in the Plant Fund, capitalized and depreciated over the life of the asset, unless it met the three criteria as outlined above.