Sauk Valley Community College
September 25, 2023

<u>Action Item 4.2</u>

Topic:	**Board Policy *307.01 Capital Assets* – Second Reading**
College Health Metric:	**Financial Stability – The College uses its revenue prudently while pursuing and utilizing alternative revenue streams. Investment in programs, personnel, processes, and infrastructure are carefully considered and supported by College Planning.**
Presented By:	**Dr. David Hellmich and Kent Sorenson**

Presentation:

The administration has identified the need for a new Board Policy to address and clarify the College's practice of capitalizing expenditures with consideration given to the following changes in accounting guidance issued by the Governmental Accounting Standards Board (GASB) applicable to the College's external financial reporting: GASB Statement No. 87, *Leases* (Issued 06/17); GASB Implementation Guide No. 2021-1 (Issued 05/21); GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (Issued 05/20). The establishment of a Board-approved written policy was recommended by the College's auditors at the conclusion of the Fiscal Year 2022 audit.

Recommendation:

The administration recommends the Board create the Board Policy *307.01 Capital Assets* as presented for a second reading.

307.01 Capital Assets

1. Accounting and Acquisitions – The College records Capital Assets in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America and practices prescribed by the Illinois Community College Board. Capital assets, which will be or are owned by the College, are recorded at cost or, if donated, at acquisition value at the date of a gift. The College adds equipment to inventory that, in general, has a useful life of more than one year and a unit value equal to or greater than $2,500. A non-cash addition of equipment or property is found or acquired through donation, loan, or transfer from another entity.
2. Capitalization Thresholds and Useful Lives – The College capitalizes all property and equipment that, in general, have a useful life of more than one year and a unit value equal to or greater than the capitalization thresholds. Capital assets of the College, other than land, inexhaustible collections, indefinite-life intangible assets, and construction-in-progress, which are non-depreciable assets, are depreciated or amortized using the straight-line method over the following useful lives:

Fixed Asset	Dollar Threshold	Useful Life (in Years)
Land	All	Non-Depreciable
Land Improvements	$25,000	20
Buildings	$25,000	40
Building Improvements	$25,000	20
Infrastructure	$25,000	20
Intangible - Software	$25,000	5
Intangible - Indefinite Life	$5,000	Non-Depreciable
Artwork	$5,000	Non-Depreciable
Equipment	$5,000	6
Vehicles	$5,000	5
IT Equipment	$5,000	4

3. Leases – Intangible ‘right-of-use’ lease assets are recorded at cost based on the present value of expected payments over the term of the respective lease term (less any lease incentives) plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs that are ancillary charges necessary to place the lease asset into service. The College will capitalize lease assets (and liabilities) with an initial measurement equal to or greater than $5,000. The College will amortize capitalized lease assets using the straight-line method over the shorter of the lease term or the useful life of the underlying asset (based on the classification in the table above). A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. The College will recognize short-term and non-capitalized leases as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

4. Subscription-Based Information Technology Arrangements (SBITA) – Intangible ‘right-of-use’ subscription assets are recorded at cost based on the present value of expected payments over the term of the respective subscription plus any payments made to the SBITA vendor before commencement of the subscription term and capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. The College will capitalize subscription assets (and liabilities) with an initial measurement equal to or greater than $25,000. The College will recognize amortization of capitalized subscription assets as an outflow of resources over the subscription term. Short-term SBITAs have a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term and non-capitalized SBITAs will be recognized as outflows of resources.
5. Collections – Collections are objects held and preserved as a group primarily for education, research, and/or public exhibition. There are two general types of collections: exhaustible and inexhaustible. Exhaustible items are “used up” so they are capitalized and depreciated. Inexhaustible items are maintained indefinitely so they are capitalized, but not depreciated. Exhaustible collections will be depreciated using the straight-line method over 10 years.
6. Capitalizing Assets in the Aggregate – The College will capitalize assets whose individual acquisition costs are less than the capitalization threshold for an individual asset, but where the aggregate cost of such identical or similar items exceeds $25,000 at the time of purchase. Assets meeting these criteria will be capitalized in the aggregate for accounting purposes and depreciated using the straight-line method over the useful life based on their classification.
7. Effective Date and Transition – This Board Policy shall have an effective date of July 1, 2022. The College’s Business Office shall be responsible for transition and implementation of related College procedures.

Approved: 09-25-2023