

BOARD OF TRUSTEES
McHENRY COUNTY COLLEGE DISTRICT #528

May 23, 2011
6:30 p.m.

Board Room
8900 U.S. Highway 14
Crystal Lake, IL 60012

Evaluation and Policies Committee

AGENDA

1. Call to Order
2. Roll Call
3. Acceptance of Agenda
4. Open for Recognition of Visitors and Presentations
Three (3) minutes per person or less.
5. Capitalization of Assets Policy
6. Discussion of Process to Review Board Policy Manual
7. Discussion to Schedule Committee Meeting Dates and Times
8. Summary Comments by Board Members
9. Closed Session
10. Future Agenda Items
11. Adjournment

Cynthia Kissler
Chair

Policy 2.1.6.1 Capitalization

Information

This capitalization policy is designed to provide a guideline for the financial management of McHenry County College's capital assets. The policy has been developed to address requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34 to ensure compliance with generally accepted accounting principles (GAAP) in preparing the Basic Financial Statements.

Capital assets include land/site, site improvements, buildings, building improvements, equipment (vehicles, machinery, and instructional equipment), software and other tangible and intangible assets that have a useful life beyond a single reporting period. Capital assets should be reported as historical costs, which include the amount paid for the asset as well as all costs associated with placing the asset in service. This may include engineering fees, architectural fees, site preparation, freight, and the like.

The proposed policy has been reviewed by the College's auditing firm.

Based upon the review of the information above, the proposed Board Policy 2.1.6.1 was developed. In addition, attached are draft administrative procedures for the implementation of the Board policy.

2.1.6.1 CAPITALIZATION

2.1.6.1.1 LAND/SITE

The total asset value for land shall include the acquisition cost and all costs to prepare the land for its intended use, such as excavating, leveling, grading, drainage, landscaping, and other. The cost of the land shall include all associated costs such as legal fee, title searches and any other closing costs.

2.1.6.1.2 SITE IMPROVEMENTS

Site improvements are the depreciable costs and betterments affixed to land that generally add to its value and functionality. Examples of site improvements include, but are not limited to, temporary structures, roads, sidewalks, parking lots, drainage systems, water and sewer system, fencing, lighting (e.g., lights in parking lots, lights along walkways), tunnels that connect buildings, as well as gas, or electricity lines.

2.1.6.1.3 BUILDINGS

The total asset value for buildings shall be the total cost of acquisition or construction. This will include all labor, material, professional services to construct the building as well as any indirect costs incurred during construction.

2.1.6.1.4 BUILDING IMPROVEMENTS

Capitalization of building improvements shall include costs that are above the capitalization threshold and extend the useful life or, increase the capacity or, increase the efficiency or, adapt to new use of the building.

2.1.6.1.5 EQUIPMENT

The asset value of the equipment will be determined by the acquisition cost of the equipment plus any additional costs such as freight, insurance, prep charges and any other charges associated with placing the asset in service. Equipment assets are typically moveable, non-consumable property. Equipment could include vehicles, instructional equipment, furniture and fixtures, office equipment, computers, and the like.

2.1.6.1.6 SOFTWARE

The cost of software shall include the purchase prices as well as the cost associated with the installation and implementation of the software.

ADMINISTRATIVE PROCEDURE
Capitalization

CAPITALIZATION THRESHOLD

The following capitalization threshold will apply when determining the capitalization of an asset.

CAPITAL ASSET CATEGORY	CAPITALIZATION THRESHOLD
Land	\$50,000
Site Improvements	\$10,000
Buildings	\$50,000
Building Improvements	\$50,000
Equipment	\$5,000
Software	\$25,000

Capitalization includes costs that are above the capitalization threshold and extend the useful life, increase the capacity and / or the efficiency or adapt to a new use of the site. General maintenance and repair projects shall not be capitalized.

Salvage value is the estimate fair value of a capital asset remaining at the end of its estimated useful life. Assets will normally be given a zero salvage value given the related costs of disposal.

Library books, for asset and depreciation purposes, will be expensed.

Donated assets will be valued at the fair market value. This may exclude certain museum items and/or teaching items such as motor vehicles and equipment when the item is on loan to the College and ownership of the asset is not transferred.

CAPITAL LEASE

A lease is classified as a capital lease, if the lease meets one or more of the following four criteria:

1. The lease transfers ownership of the property to the lessee.
2. The lease contains a bargain purchase option.
3. The lease term is substantially (75% or more) equal to the estimated useful life of the leased property.
4. At the inception of the lease, the present value of the minimum lease payments is 90% or more of the fair value of the leased property.

DEPRECIATION

Depreciation is a method of allocating the cost of an asset over its estimated useful life, rather than deducting the cost as an expense in the year of acquisition. Generally, at the end of an asset's life, the sum of the amounts charged for depreciation in each accounting period (accumulated depreciation) will equal the original cost less the salvage value. Capital assets will be depreciated over their estimated useful lives. The straight-line method of depreciation will be used using a full year convention. Land costs are not depreciated.

ESTIMATED USEFUL LIVES

The following table will apply for depreciation depending on the capital asset category:

CAPITAL ASSET CATEGORY	ESTIMATED USEFUL LIFE (IN YEARS)
Land	Not Depreciated
Site Improvements	10-20
Buildings	40-60
Building Improvements	10-20
Technology Equipment	3-5
Other Equipment	5-10
Software	3-5

MANAGEMENT RESPONSIBILITY

The Chief Financial Officer/Treasurer shall be responsible for the appropriate recording and reporting of all capital assets, ensuring compliance with all statutes and applicable pronouncements from various accounting boards.