Operating Standard

Title: Capitalization, Valuation, and Depreciation **Number:** A5500.25
Type: Administrative
Responsible: VP of Administrative Services
Related Policies: B3000, B3006, B3007, A5000
Linked Operating Standards: A5500.05
Related Laws: 2CFR 200; 805 ILCS 5/;
Related External Standards: GASB; GAAP; GFOA; NACUBO
HLC Criterion: 4A

1.0 Statement

The College shall capitalize, record, depreciate, inventory, and dispose of capital assets in accordance with generally accepted accounting principles (GAAP), applicable governmental accounting standards, federal and state regulations, and College procedures. All capital assets meeting the capitalization thresholds established in this policy shall be recorded in the College's fixed asset system and safeguarded throughout their useful lives."

2.0 Purpose & Scope

2.1 Purpose:
The purpose of this Operating Standard (OS) is to establish consistent standards for identifying, recording, tracking, depreciating, and disposing of capital assets. This OS promotes accurate financial reporting, compliance with applicable accounting standards and grant requirements, effective stewardship of college resources, and strong internal controls over capital assets.

2.2 Scope:
This OS applies to all College departments and employees responsible for acquiring, managing, safeguarding, or accounting for capital assets. It covers all capital assets purchased or acquired by the College, regardless of funding source, including institutional funds, grants, donations, leases, and subscription-based information technology arrangements (SBITAs).

3.0 Definitions:

- **Capital Assets** – a tangible or intangible asset with an estimated useful life of more than one fiscal year and a cost that meets or exceeds the College's capitalization thresholds.
- **Capitalization** – the process of recording an expenditure as a long-term asset rather than an expense.
- **Historical Cost** – the actual cost incurred to acquire an asset and place it into service.
- **Construction in Progress (CIP)** – cost accumulated for capital projects that are not yet substantially complete.

4.0 Roles & Responsibilities

4.1 Capital Asset Inventory
Inventory of capital assets will be conducted once a year starting on September 1st. The Administrative Services division will coordinate the inventory of capital assets. The IT Department is responsible for the Inventory of Computer Equipment and Software.

4.2 Disposal of Capital Assets
Disposing of capital assets will follow the *A5500.05* Disposal of Surplus Property OS.

4.3 Asset Inventory and Control
The College maintains a capital asset inventory system that includes:

- Asset description and tag number
- Acquisition date and cost
- Funding source
- Location and responsible department
- Depreciation and accumulated depreciation

5.0 Procedures

5.1 Asset Identification During Invoice Processing
The Accounts Payable Clerk shall identify all qualifying capital asset purchases during the invoice voucher process.

When processing the voucher, the Accounts Payable Clerk shall designate the purchase as a fixed asset within the College's computerized financial system and assign the next available fixed asset tag number.

5.2 Automatic Asset Record Creation
Once the voucher is processed, the information entered into the financial system shall automatically transfer to the Fixed Asset Module.

The asset record shall include, at a minimum:

- Asset description
- Fixed asset tag number
- Acquisition date
- Acquisition cost
- Funding source
- Physical location
- Responsible department
- Vendor information (when applicable)

5.3 Monthly Review
The Director of Business Services shall review the Fixed Asset Module on a monthly basis to verify that newly acquired assets have been properly recorded, categorized, and capitalized in accordance with the College's capitalization policy.

5.4 Annual Physical Inventory
The Director of Business Services shall coordinate and perform a physical inventory of capital assets at least annually.

The inventory shall be reconciled to the Fixed Asset Module, and any discrepancies, transfers, disposals, missing assets, or corrections shall be investigated and documented.

5.5 Information Technology Assets
The Information Technology Department shall maintain an inventory of all computer-related capital assets, including computers, servers, networking equipment, and other technology devices.

The IT Department shall assist with the annual inventory process by verifying the location, condition, and assignment of technology assets and shall promptly notify the Business Office of any transfers, disposals, losses, or other changes affecting these assets.

5.6 Asset Transfers and Disposals
Departments shall notify the Business Office whenever a capital asset is transferred to another department or location, becomes obsolete, is lost, or is disposed of.

The Director of Business Services shall ensure that the Fixed Asset Module is updated to reflect all approved transfers and disposals and that appropriate supporting documentation is maintained.

6.0 Guidelines

6.1 Capitalization Thresholds

- Any equipment or software with a cost over $5,000 each and a useful life over a year. Land and buildings are capitalized.

6.2 Asset Valuation
Capital assets are recorded at historical costs, which includes

- Purchase price
- Freight and delivery
- Installation and testing
- Professional fees (architectural, engineering, consulting)
- Site preparation and related costs.

6.3 Useful Lives and Depreciation

- The College depreciates capital assets using the straight-line method, which begins when the asset is placed into service.
- Land and construction in progress are not depreciated.
- Standard Useful Lives

Asset Category	Useful Life
Land	Not depreciated
Construction in Progress	Not depreciated till complete
Buildings	50 years
Building Improvements	15-20 years
Infrastructure	25-40 years
Vehicles	5-8 years
Equipment, Furniture & Fixtures	5-10 years
Computer Equipment	3-5 years
Computer Software	3-10 years

6.4 Improvements, Repairs, and Maintenance

- Capital Improvements that extend an asset's useful life, increase capacity, or improve efficiency are capitalized if they meet applicable capitalization thresholds.
- Routine repairs and maintenance that maintain assets in normal operating conditions are expense in the period occurred.

6.5 Leases (GASB 87)

- Lease assets represent tangible right-of-use assets and are initially recorded at cost, measured as the present value of expected lease payments over the term of the lease, less any lease incentives received. The initial measurement also includes payments made to the lessor at or prior to the commencement of the lease term, as well as certain direct costs necessary to place the asset into service.
- The College will capitalize lease assets and corresponding lease liabilities when the initial measurement is $5,000 or greater.
- Capitalized lease assets are amortized using the straight-line method over the shorter of:

- The lease term, or the estimated useful life of the underlying asset, based on the applicable asset classification. A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term of 12 months or less, including any extension options, regardless of the likelihood of those options being exercised. Lease agreements that do not meet capitalization criteria, including short-term leases, are recognized as outflows or inflows of resources in the period incurred in accordance with the payment provisions of the lease agreement.

6.6 Subscription-Based Information Technology Arrangements (SBITA) (GASB 96)
The College recognizes SBITAs as intangible right-to-use subscription assets and corresponding subscription liabilities when the arrangement conveys control of the right to use another party's information technology software, either alone or in combination with tangible capital assets, for a period of time in an exchange or exchange-like transaction.

SBITA assets are initially measured at the present value of subscription payments expected to be made over the subscription term, including:

- Fixed payments
- Variable payments that depend on an index or rate
- Payments associated with renewal or termination options, if reasonably certain to be exercised

The initial measurement also includes:

- Subscription payments made to the vendor at or before the commencement of the subscription term
- Capitalizable implementation costs (e.g., configuration, coding, installation)

The College will capitalize SBITA assets and related liabilities when the initial measurement is $5,000 or greater.

SBITA assets are amortized using the straight-line method over the shorter of:

- The subscription term, or the useful life of the underlying software, if applicable.
- A short-term SBITA is defined as an arrangement with a maximum possible term of 12 months or less, including any options to extend, regardless of the likelihood of exercise. Short-term SBITAs are recognized as outflows of resources as payments are made. Ongoing subscription payments that do not meet capitalization criteria, as well as non-capitalizable costs such as training, data conversion, and maintenance, are expensed as incurred.

7.0 SCCES Connections

This Operating Standard supports the Infrastructure Effectiveness Element within the SCCES framework, particularly the Fiscal Stewardship and Resource Optimization Key Performance Areas.

Capitalization, valuation, and depreciation practices serve as foundational components of the College's financial reporting and asset management systems. These practices ensure accurate representation of institutional resources, support long-term financial planning, and reinforce compliance with accounting standards.

Through consistent application, this standard contributes to:

- Accurate valuation and reporting of institutional assets (Fiscal Stewardship)
- Effective allocation and lifecycle management of resources (Resource Optimization)

The practices defined in this standard serve as key process inputs that support financial accuracy, regulatory compliance, and informed decision-making.

8.0 Monitoring Report Connections

This Operating Standard supports the College's annual Finance and Investment Monitoring Report by generating evidence related to financial controls, financial reporting accuracy, asset management, and system reliability.

Evidence generated through this standard contributes to the evaluation of Board policies, including:

- B3000 – General Executive Limitations
- B3006 – Financial Condition and Activities
- B3007 – Asset Protection

Evidence generated may include:

- Total value of capital assets by category
- Annual depreciation expense and trends
- Capitalization activity (additions, disposals, and reclassifications)
- Compliance with capitalization thresholds and accounting standards

These indicators provide insight into financial reporting accuracy, asset management practices, and long-term fiscal sustainability. Collectively, they support Board evaluation of fiscal stewardship, asset protection, and compliance with Executive Limitations.

The following alignment illustrates how operational practices defined in this standard contribute to key Monitoring Report measures:

Operational Area	**Evidence Generated**	**Monitoring Alignment**
Capital Asset Valuation	Total asset values by category	Financial Condition
Depreciation Trends	Annual depreciation expense	Financial Sustainability
Capitalization Activity	Additions, disposals, reclassifications	Resource Management
Compliance with Standards	Adherence to GAAP, GASB, ICCB requirements	Financial Integrity & Compliance

Collectively, these indicators provide insight into asset management effectiveness and financial reporting accuracy, supporting continuous improvement and informed decision-making.

9.0 Data Collection & Review

This Operating Standard supports ongoing evaluation of capital asset management practices through structured data collection and review.

Data Collection: Administrative Services will maintain and review data related to:

- Capital asset inventory and valuation
- Depreciation schedules and expense
- Capital additions, disposals, and reclassifications
- Compliance with capitalization thresholds and accounting standards

Review and Analysis: Data will be evaluated for accuracy, consistency, and compliance, including alignment with GAAP, GASB pronouncements, and ICCB reporting requirements. Findings will be used to strengthen financial reporting processes, support audit readiness, and inform long-term financial planning.

Review Cycle: Data will be reviewed on an ongoing basis, with formal review conducted at least annually or as part of financial reporting and audit cycles.

Coordination: Administrative Services will coordinate with appropriate institutional offices to support audit, compliance, and institutional effectiveness processes.

10.0 Oversight & Review

This Operating Standard will be reviewed at least every three (3) years or sooner as required based on legal, regulatory, audit, or institutional needs.

Oversight of this standard is coordinated by Administrative Services, with support from relevant institutional offices to ensure alignment with financial reporting standards, audit practices, and institutional priorities.

Revisions will follow the College's Shared Governance processes and will be documented in the Change Log.

Change Log	**Governance Unit: Administrative Services Council**
Date	**Description of Change**
3.17.26	Initial Review
4.20.26	Administrative Services Council Review
4.23.26	Executive Council Approval
5.19.26	Business & Finance Team Update