

 <p>CITY OF ST. CHARLES ILLINOIS • 1834</p>	AGENDA ITEM EXECUTIVE SUMMARY		Agenda Item number: *5b
	Title:	Recommendation to Approve A Resolution for the Updated Capital Asset Policy	
	Presenter:	Bill Hannah, Director of Finance Colleen Lavery, Assistant Finance Director	
Meeting: Government Operations Committee		Date: April 15, 2024	
Proposed Cost: \$-0-		Budgeted Amount: \$ N/A	Not Budgeted: <input type="checkbox"/>
TIF District: None			
Executive Summary			
<p>The City has a formal capital asset policy that is amended from time to time. This policy, among other things, primarily governs at what dollar level the City capitalizes assets which are purchased during the fiscal year. If a capital asset purchase exceeds this dollar value, currently set at \$25,000, the City then depreciates that asset over time rather than expense it in the current year. The City maintains records of these assets that are capitalized in order to ensure that depreciation, disposal and other aspects are properly recorded.</p> <p>Prior to the year 2000, some of the infrastructure assets that were purchased or acquired (primarily electric or water line infrastructure) were grouped into a single category. In order to properly record asset disposals as these assets are replaced, Finance has implemented a methodology that estimates the age of the retired asset, and calculates the original value by discounting using the Consumer Price Index back to the original year of purchase.</p> <p>During the annual audit process, one of Sikich’s recommendations was to formalize this methodology by incorporating it into the City’s capital asset policy. This was accomplished last fiscal year. Part of Sikich’s recommendation is to formalize any changes to the capitalization policy by the City Council, and as such the updated policy is on the agenda for approval.</p>			
Attachments (please list):			
Resolution Adopting Updated Capital Asset Policy			
Recommendation/Suggested Action (briefly explain):			
Recommendation to Approve the Resolution for Updated Capital Asset Policy			

**City of St. Charles, Illinois
Resolution No. _____**

A Resolution Approving Updated Capital Asset Policy

**Presented & Passed by the
City Council on May 6, 2024**

WHEREAS, the City of St. Charles has a formal capital asset policy that is amended from time to time; and

WHEREAS, this policy, among other things, primarily governs at what dollar level the City capitalizes assets which are purchased during the fiscal year; and

WHEREAS, prior to the year 2000, some of the infrastructure assets that were purchased or acquired were grouped into a single category and Finance implemented a methodology that estimated the age and value of an asset from this group once it is replaced; and

WHEREAS, during the previous annual audit process, it was recommended by the auditors to formalize this methodology by incorporating it into the City's capital asset policy and approving it by the City Council.

NOW, THEREFORE, be it resolved by the Mayor as follows:

Section 1. The foregoing recitals shall be and are hereby incorporated as findings of fact as if said recitals were fully set forth herein.

Section 2. This Resolution and Exhibit A shall be in full force and effect upon its adoption, as provided by law.

Presented to the City Council of the City of St. Charles, Illinois this 6th day of May, 2024.

Passed by the City Council of the City of St. Charles, Illinois this 6th day of May, 2024.

Approved by the Mayor of the City of St. Charles, Illinois this 6th day of May, 2024.

Lora A. Vitek, Mayor

ATTEST: _____

City Clerk

COUNCIL VOTE:

Ayes: _____

Nays: _____

Abstain: _____

Absent: _____

City of St. Charles, Illinois

Capitalization Policy

Definition of Capital Assets

Capital assets are defined as tangible and intangible assets that have useful lives that extend beyond one year. They are comprised of land, land improvements, buildings, major ~~movable~~ equipment, vehicles, and infrastructure (e.g., roads, bridges, storm sewers and other assets that are immovable and of value only to the City). Capital assets represent a substantial investment by governments. Establishing an auditable property record and maintaining the integrity of the data base assists in the overall financial management of the public entity. A few benefits of ~~good~~accurate property records are as follows:

- Facilitates financial reporting in accordance with generally accepted accounting principles;
- Qualifies a public entity to participate in the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting program;
- Enhances capital asset accountability and stewardship;
- Improves property management relating to capital budgeting, cost analysis, resource allocation, and replacement forecasting; and
- Improves property insurance program management; specifically, insurance, replacement, and potential proof of loss assistance.

Financial Statement Presentation and Disclosure

Capital assets used in governmental fund type operations are reported in the governmental activities column in the government-wide financial statements. Capital assets used in proprietary operations (i.e. electric, water, sewer) are accounted for in the business activities column in the government-wide financial statements. Capital assets for proprietary operations are also included in the individual fund statements.

Capitalization Method

To be classified as a capital asset, an item must have a useful life of more than one year and be valued at the minimum levels described below. Capital assets are generally valued at historical cost (purchased price) or estimated historical cost, if actual historical cost is not available. Estimated historical cost is calculated using the current replacement cost and deflating the cost by using an appropriate price-level index. Historical cost includes all reasonable and necessary costs incurred to acquire an asset and put it into service at its' intended location, including freight and installation. Donated capital assets are recorded at the estimated fair market value at the time of donation.

For proprietary capital assets, historical cost also includes interest incurred during construction, net of interest earned on the invested proceeds over the same period (capitalized interest).

The cost of normal maintenance and repairs, including road resurfacing/sealing, sidewalk/curb patching, manhole restorations, and water main repairs, that do not add to the value of the asset or materially extend its useful life are not capitalized. Costs incurred subsequent to the acquisition of a tangible capital asset, which result in extending the life or increasing the productivity of that asset (i.e. betterments and improvements) ~~shall be~~ capitalized.

Capitalization Threshold

The threshold for capitalization, based on initial, individual asset costs, for all capital assets except land and motor vehicles, is set at **\$25,000**. All land and motor vehicles will be capitalized, regardless of cost.

Depreciation

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<i>Assets</i>	<i>Years</i>
Buildings	15-50
Improvements Other Than Buildings	15-50
Infrastructure	30-65
Electric Property	25-40
Water and Sewer Plant and Equipment	25-50
Intangible Assets	3-40
Equipment and Fixtures	3-15

Asset Disposals

Disposal of capital assets is authorized by City Council as required by law. Disposal is done through sale, by public auction, or declared of no useful value and salvaged. Authorization of the disposal of an asset is accomplished by ordinance. Proceeds received from the disposal normally are recorded in the fund that acquired the asset.

Prior to the year 2000, some of the like infrastructure asset purchases made during each fiscal year were grouped and recorded as a single asset. The Finance Department will employ the following methodology for identifying and disposing of these assets when replaced. With the assistance of the operating department that maintains control of the asset, the age of the asset being replaced will be estimated and the year of purchase calculated. Like assets purchased during the estimated year of purchase will be identified

in the asset records. The cost of the old asset to be disposed will be computed by discounting the value of the new asset using the Consumer Price Index applicable to the year of purchase.

Infrastructure Assets

In accordance with GASB Statement 34, ~~t~~The City records, at a minimum, “major” infrastructure assets as defined in Statement 34 that were acquired, constructed or significantly reconstructed, or that received significant improvements after June 30, 1980.

Infrastructure assets include roads, bridges, curbs, gutters, sidewalks, drainage systems and ~~lighting~~electrical systems. Other infrastructure assets may be capitalized as deemed appropriate.

Safeguarding of City Assets

Responsibility for control of capital assets will rest with the operating department wherein the asset is located. The Director of Finance shall ensure that such control is maintained by establishing a fixed asset inventory. The inventory will include the following for each asset:

- A description (serial #, model #)
- Asset classification (Building, Machinery & Equipment)
- Purchasing department along with the physical location of the asset
- The cost (purchase order #, if applicable)
- The estimated useful life of the asset
- Date the asset was acquired and or disposed
- Method of acquisition (purchase, donation)
- ~~— Salvage value~~
- Funding source

This list will be maintained, updated and reviewed by the Finance department on a regular basis. Tagging of assets will not be required.

Operating departments shall report the disposal or relocation of an asset promptly to the Director of Finance, or his or her designee, and that change will be reflected in the inventory records. Asset purchases, which fall under the capitalization threshold, will not be included in the fixed asset inventory. Each department is responsible for ensuring that all assets are adequately protected from theft and misuse. In addition, computers and peripheral equipment is tracked separately by the IS department.

Intangible Assets

Effective with the fiscal year ending April 30, 2011, the City will implement GASB No. 51, Accounting and Financial Reporting for Intangible Assets. Intangible Assets are assets that do not have a physical existence, are non-financial in nature and have an initial useful life of greater than one year. Examples of intangible assets include easements,

water rights, mineral rights, patents, trademarks, copyrights, web sites and computer software, including third party software and internally generated software. Intangible assets will be subject to the same threshold noted above. Intangible assets will be valued at their historical cost, with the exception of easements, which will be valued at 7.5% of the current land cash value. Donated intangible assets will be reported at their fair market value at the time of donation.

Effective Date

This capitalization policy will be effective upon acceptance by City Council.