



ST. CHARLES  
SINCE 1834

**AGENDA ITEM EXECUTIVE SUMMARY**

Title: Amend Capitalization Policy for Intangible Asset Accounting

Presenter: Julie Herr

*Please check appropriate box:*

<input type="checkbox"/>	Government Operations	<input type="checkbox"/>	Government Services
<input type="checkbox"/>	Planning & Development	<input checked="" type="checkbox"/>	City Council (4/18/2011)
<input type="checkbox"/>	Public Hearing	<input type="checkbox"/>	

Estimated Cost: N/A      Budgeted: YES  NO

If NO, please explain how item will be funded:

**Executive Summary:**

Due to the issuance of Governmental Accounting Standards Board (GASB) Standard 51 which governs the accounting for Intangible Assets such as easements and computer software, an amendment to the City's current Capitalization policy is required. This is a housekeeping matter that is formalizing how we account for Intangible Assets. The City's independent auditors have recommended that the Capitalization Policy be amended to reflect GASB 51.

**Attachments:** *(please list)*

Resolution  
Amended Capitalization Policy

**Recommendation / Suggested Action** *(briefly explain):*

Recommendation to Council to adopt the Amended Capitalization Policy.

*For office use only:*      Agenda Item Number: IH

**City of St. Charles, Illinois**  
**Resolution No. \_\_\_\_\_**

**A Resolution Approving an Amendment to the Capitalization Policy for the  
City of St. Charles, Kane and DuPage Counties, Illinois**

**Presented & Passed by the  
City Council on \_\_\_\_\_**

BE IT RESOLVED by the CITY COUNCIL OF THE CITY OF ST. CHARLES, KANE AND DUPAGE COUNTIES, ILLINOIS, that the Capitalization Policy, in substantially the form attached hereto and incorporated herein as Exhibit "A", by and on behalf of the CITY OF ST. CHARLES, is approved.

PRESENTED to the City Council of the City of St. Charles, Illinois, this \_\_\_\_ day of April, 2011.

PASSED by the City Council of the City of St. Charles, Illinois, this \_\_\_\_ day of April, 2011.

APPROVED by the Mayor of the City of St. Charles, Illinois, this \_\_\_\_ day of April, 2011.

\_\_\_\_\_  
MAYOR

ATTEST:

\_\_\_\_\_  
CITY CLERK

COUNCIL VOTE:

Ayes \_\_\_\_\_  
Nays \_\_\_\_\_  
Absent \_\_\_\_\_

## City of St. Charles, Illinois

### Capitalization Policy

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#### 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 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. 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.

**Infrastructure Assets**

In accordance with GASB Statement 34, 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 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.