



To: Finance & Administration Committee

From: Timothy Sexton, Director of Finance

Date: February 6, 2024

Subject: Proposed Fixed Asset Policy Update

In 2002, the Village Board approved an increase for the capitalization threshold at the time of acquisition from \$5,000 to \$50,000 on a per unit basis for machinery, equipment, and vehicles; \$100,000 for buildings and improvements; and \$200,000 for land and infrastructure.

Due to inflationary increases over the past 20 years, staff propose the capitalization threshold increase from \$50,000 to \$100,000 on a per unit basis for machinery, equipment, and vehicles.

As of CYE 2022, total governmental activities capital assets for the Village are \$170,941,483 of which 8.1% (\$13,944,755) are vehicles and equipment.

- 34.8% (24 of 69 assets) cost below \$100,000 each and total less than 10% (\$1,360,586) of total capitalized vehicles and equipment.
- The last 2 police vehicles purchased were \$51,000 each.
- There will be approximately 50 vehicles added to fixed assets within the next 5 years without a change to increase the threshold to \$100,000.

No changes are recommended for the current thresholds for land improvements, buildings, land, or infrastructure. Below are the current asset totals for each type.

- Land Improvements \$1,439,578
- Buildings \$10,171,520
- Land \$29,741,554
- Infrastructure \$115,617,0767

Staff requests the Finance & Administration Committee to review the proposed changes and provide a recommendation for the Village Board.

FIXED ASSETS - Adopted June 6, 2002

PURPOSE

The Village shall establish and maintain fixed asset records to comply with governmental financial reporting standards, to provide a basis for determining appropriate insurable values, and to establish responsibility for property control.

DEFINITION

Fixed assets shall include land, infrastructure, buildings, machinery, equipment, and vehicles with a life expectancy of one year or more, subject to the capitalization threshold below. Infrastructure shall include roads (including curbs and gutters), bridges, water and sewer mains, pumping stations, lift stations, traffic lights, streetlights, etc. Capitalization of road projects only occurs when the street is torn down to the base and completely rebuilt.

All expenditures related to an infrastructure project will also be capitalized (engineering, legal services, etc.). All other street construction, i.e. regrinding, patching, etc., is considered maintenance, and not capitalized. Water and sewer projects will be capitalized when the project constructs additional infrastructure or replaces infrastructure and meets the capitalization threshold below. Repairs of water and sewer assets will only be capitalized when they materially extend the life of the original asset and meet the capitalization threshold below.

CAPITALIZATION THRESHOLD

The capitalization threshold or minimum value of an asset at the time of acquisition is established at \$100,000 on a per unit basis for machinery, equipment, and vehicles; \$100,000 for buildings and improvements; and \$200,000 for land and infrastructure.

PROPERTY ACCOUNTING

Responsibility for control of assets rests with the operating department wherein the asset is located. The Director of Finance shall ensure that control over fixed assets is maintained by establishing a fixed asset inventory that is updated annually and documents all additions and deletions to the fixed asset records. Operating departments shall report the disposal or relocation of a fixed asset promptly to the Director of Finance or his designee. Assets acquired during the year shall be recorded as an expenditure against the appropriate capital expenditure account, which shall be used for financial reporting purposes.

Assets shall be recorded in the fixed asset inventory by using an appropriate description and by recording serial numbers where applicable. Tagging of assets will not be required.

PROPERTY CONTROL

Assets, which do not meet the definition of “fixed assets” under this policy, but in the aggregate account for a substantial asset group, shall not be capitalized for financial accounting purposes. Rather, the responsible operating department shall maintain control of these assets using a system suitable for doing so. Examples of asset groups (and the department responsible for them) which shall be inventoried and maintained separately from the Village’s fixed asset inventory include computers and related equipment (MIS Department), guns (Police), vehicles (Fleet Services) and any other asset group identified by the Director of Finance.

DEPRECIATION METHOD

All assets will be depreciated using the straight-line method of depreciation over the useful life of the asset. The Director of Finance will assign useful lives to each asset according to the guidelines below.

<u>Type of Asset</u>	<u>Useful Life</u>
Buildings	30-50 Years
Vehicles and Equipment	3-15 Years
Land	Not Depreciated
Land Improvements	10-20 Years
Water & Sewer Infrastructure	20-50 Years
Other Infrastructure	20-50 Years