

CAPITALIZATION POLICY

Town of Guilford

Purpose

This Capitalization Policy applies to the capitalization of capital assets in all funds that shall be used to determine the capital assets, including infrastructure assets that are to be recorded in the Town of Guilford's annual financial statements. This policy establishes guidelines for determining:

- Which expenditures should be capitalized as a capital asset and which expenditures should be expensed
- How to value capital assets that are reported
- The estimated useful lives of capital assets

Capital Asset Definition

Capital assets are defined as tangible and intangible assets that have initial useful lives that extend beyond a single reporting period. Capital assets means property owned by the Town, including, but not limited to: computers, computer equipment, software; vehicles and machinery; copiers and office equipment; land and structures; and infrastructure such as roads, bridges, rights-of-way, and culverts.

Capital Asset Types

Capital assets are divided between assets that are not subject to depreciation and assets that are subject to depreciation.

Assets that are not subject to depreciation include:

- Land. The amount that should be capitalized for land should include the cost of the land itself; professional fees used to acquire the land (legal, engineering, appraisal, survey fees); costs for excavation, fill, grading, or drainage; demolition of any existing buildings or other improvements; and any other costs that are incurred to acquire the land and make the land suitable for use by the Town. Land is characterized as having an unlimited life and is therefore not depreciated.
- Construction in progress. The costs of assets that the Town is constructing, where expenses are incurred over more than one fiscal year, are accumulated as construction in progress until the asset is placed in service. At that time, the total costs are then transferred to the appropriate asset type and depreciated.

Assets that are subject to depreciation include:

- Land improvements. Land improvements are those improvements, other than ordinary and regular site preparation, which ready the land for its intended use. Such improvements can include parking lots, athletic fields, fencing, paths and trails, and landscaping.
- Buildings and building improvements. Buildings are permanent structures that are intended for shelter of persons, materials or equipment. Building improvements are capital events that extend the useful life of a building or increase the value of a building, or both. Repairs that simply maintain the existing life or restore a building to its original condition do not constitute an improvement.
- Equipment. Equipment is an item of tangible, nonexpendable personal property with a useful life of more than one year, and includes machinery and vehicles.
- Infrastructure. Infrastructure assets are long-lived capital assets that are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Such assets can include streets and roadways, bridges, sidewalks, water mains and distribution lines, sewer mains and collection lines, treatment plants, storm water drainage systems, dams and lighting systems.

Capitalization method

All capital assets are recorded at historical cost as of the date acquired or constructed. If historical cost information is not available, assets are recorded at estimated historical cost by calculating current replacement cost and deflating the cost using the appropriate price-level index. Tangible assets costing below the threshold amount are recorded as an expense for the Town of Guilford's annual financial statements. Assets with an economic useful life of 12 months or less are required to be expensed for financial statement purposes, regardless of the acquisition or production cost.

Capitalization thresholds

The Town establishes the following minimum capitalization thresholds for capitalizing fixed assets:

Land	\$25,000
Land improvements	\$25,000
Buildings	\$25,000
Building improvements	\$15,000
Machinery	\$5,000
Equipment	\$5,000
Vehicles	\$15,000
Infrastructure	\$25,000

Depreciation

Assets that are capitalized will be depreciated over their estimated useful lives. Depreciation will be calculated on the straight-line basis, using estimated useful lives as follows:

Land improvements	15 to 30 years
Buildings and building improvements	15 to 30 years
Equipment, machinery and vehicles	3 to 10 years
Infrastructure	15 to 40 years

Because depreciation is intended to allocate the cost of a capital asset over its entire useful life, it normally is not appropriate to report assets still in service as fully depreciated. The annual amounts of depreciation expense will be reduced as soon as it becomes clear that an asset's useful life will be longer than originally estimated.

Recordkeeping

Detailed records shall be maintained for all fixed assets above the established thresholds. Invoices substantiating the acquisition cost of each unit of property shall be retained for a minimum of five years.

The foregoing Policy is hereby adopted by the Selectboard and the Treasurer of the Town of Guilford, Vermont, this 2nd day of MAY, 2015 and is effective as of this date until amended or repealed.



Anne Rider, Chair



Richard Clark



Sheila Morse



Troy Revis, Jr.



Gabrielle Ciuffreda

Penny Marine, Treasurer