Appendix B

Capitalization Policies

While Accounting Standards do prescribe a minimum level for the capitalization of assets they do require the *disclosure* of a capitalization policy, or a statement to define a capital asset within the organization. In other words, a policy stating what dollar value and 'life' of an asset is required to be considered a 'capital asset' within the organization.

In some cases, a capitalization policy can be a relatively simple statement. In others, the statement might include different capital 'thresholds' or dollar values for different types of assets, subsystems, networks or collections, and may include asset management and maintenance procedures to meet the standards required for the alternative accounting approach for reporting eligible infrastructure assets. In addition, there may be supplemental policies pertaining to capital assets for management purposes, or to comply with other state or local regulations. The Agency's capitalization policy has been provided and adopted by the Board of Selectman.

As noted, accounting standards provide only a broad definition of capital asset as "…tangible or intangible assets that are used in operations and have initial *useful lives extending beyond a single reporting period."* "Examples of the Agency's capital assets include the following:

- Land and Improvements to Land
- Easements
- Buildings and Building Improvements
- Vehicles
- Machinery and Equipment
- Infrastructure" [1]

In developing a policy, the Agency has evaluated how it currently defines a capital asset. The following items have been considered for assistance in developing that policy:

- Assets having an estimated useful life that extends beyond one year (or a single reporting period?) and a cost value of $ 5,000 or more.

Capitalization Policy

Effective October 1, 2008

Capital Equipment – tangible personal property having a useful life of one year or more and an acquisition cost of $5,000 or more per unit.

Acquisition Cost – the net invoice price of the equipment including the cost of modifications, attachments, accessories, or auxiliary apparatus necessary to make the equipment operable. Other charges such as the cost of installation, transportation, taxes, duty or protective in-transit insurance, shall be included in determining the acquisition cost.

Policy

Capital equipment at the Agency is tangible, non expendable property having a useful life of one year or more and an acquisition cost of $5,000 or more per unit. All equipment meeting this definition should be recorded on the Agency's equipment inventory and should be tagged with a control number for tracking purposes.

Personal Computers

All personal computer system packages valued at $5,000 or more are to be recorded on the equipment inventory. PC system packages consist of a central processing unit (CPU), system software, and all accessories necessary to make the property operable. The value of computer monitors purchased with PC systems should be capitalized as part of the PC system.

- All land (including ancillary costs);
- Parking lots, land improvements operated and maintained by the Agency
- Infrastructure, other than the above with a cost of $5,000 or greater.
- All other capital assets with a unit cost (including ancillary costs) of $5,000 or greater, or collections with a total cost of $5,000 or greater, unless otherwise noted.

For capital assets acquired by and used in the operations of governmental fund type accounts, the value of the assets in the General Capital Assets Subsidiary Account has been recorded.

Although small and attractive assets do not meet the Agency's capitalization policy above, they are considered capital assets for purposes of marking and identifying capital assets, inventory records requirements and physical inventory counts.

Close out Construction in Progress and capitalize the costs into the appropriate asset classification when a project is substantially complete, accepted and placed into service.

New acquisitions – Capitalize new assets that meet the Agency's capitalization policy as stated above. Additions, improvements, repairs, or replacements to existing capital assets are not considered new acquisitions and are discussed below.

Additions – Capitalize expansions of or extensions to an existing capital asset that meet the Agency's capitalization policy above.

Extraordinary repairs, betterments, or improvements - Capitalize outlays that increase future benefits from an existing capital asset beyond its previously assessed standard of performance if they meet the state's capitalization policy as stated above. Increased future benefits typically include:

- An extension in the estimated useful life of the asset.
- An increase in the capacity or efficiency of an existing capital asset.
- A substantial improvement in the quality of output or a reduction in previously assessed operating costs.

Replacements – For building, improvements other than buildings, and equipment, capitalize the cost of outlays that replace a part of another capital asset when the cost of the replacement is $5,000 or more **and** at least 10 percent of replacement value of the asset, or $10,000, whichever is less.
Example:

A $9,000 replacement of a heating boiler in a building having a replacement value of $120,000 would not be capitalized. In this case $9,000 is not at least 10 percent of the building's replacement value. Had the building's replacement value been less than $90,000, the $9,000 boiler replacement would have been capitalized.

EXCEPTIONS to this policy are:

- Replacement roof coverings are not capitalized (whether or not the replacement is with superior materials) unless the replacement extends the useful life of the building.
- Replacement floor coverings and window coverings are not capitalized.
- Costs to remodel (convert) a building to a different use, where the remodeling does not extend the useful life of the structure itself, are not capitalized.

Remove the capitalized value and the associated accumulated depreciation of the replaced capital asset or original building component from the accounting records if the amounts are determinable, and capitalize the cost of the replacement.

Bulk Purchase – For proprietary fund type accounts, bulk purchases of like capital assets with unit costs of less than $5,000 may be capitalized as a group where the allocation of costs for the bulk assets over time is matched to the corresponding revenue generated by the bulk assets.

Collection – Capitalize Art Collections, Library Reserve Collections, and Museum and Historical Collections meeting these conditions have the option of capitalizing their collections