CAPITAL ASSETS POLICY
TOWN OF WATERBURY

Section 1: Title, Authority, and Purpose

This policy shall be known as the "Town of Waterbury Capital Assets Policy." It has been adopted by the Town of Waterbury Select Board pursuant to 24 VSA § 872.

The purpose of this Capital Assets Policy is to establish proper management and accounting practices over all categories of capital assets in order to safeguard, effectively maintain and provide accurate and reliable information upon which financial decisions can be made. It establishes guidelines to ensure that transactions are supported by adequate documentation, oversight and approvals.

Section 2: Definitions

General Guidelines. It is the policy of the Town of Waterbury that capital assets shall be used for appropriate Town purposes only and that all such assets be properly accounted for and secured. The Municipal Manager or designee shall ensure that all capital assets are inventoried on a regular basis and accounted for by fund and category. It is the responsibility of Department Heads to ensure that proper budgeting and purchasing guidelines are followed (see Town of Waterbury Financial Management Policy and Town of Waterbury Purchasing Policy), that those assets are adequately controlled and used for appropriate Town purposes and that they are properly secured.

The Town of Waterbury's capital assets management practices must comply with the guidelines set forth in this policy as well as GASB standards, best practices and, in the case of assets that are funded by federal grants, the appropriate provisions of Title 2, Part 200 of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Grant Guidance"), specific sections referenced in Section 5 below.

Security for these assets will be the responsibility of the Department Heads and this includes maintaining a list of all keys and combinations and who these were assigned to. When staff assigned keys or combinations have terminated employment with the Town, all keys should be returned and combinations changed.

Capital Assets. Capital assets for the Town of Waterbury are defined as assets having a useful life of more than one year and a historical cost of $15,000 or more (fair market value of donated assets). This threshold is known as the capitalization threshold. These assets will be included in the property inventory. Major additions, including those that significantly prolong a capital asset's economic life or expand its usefulness, should be capitalized. Normal repairs that merely maintain the asset in its present condition should be recorded as expenses and should not be capitalized.

Historical Treasures. The Town of Waterbury houses the Waterbury Historical Society Museum and records the historical value of its contents that meet the capitalization threshold. However, depreciation is not required as they do not depreciate in value.

Group Schedule. The capital asset group schedule that follows outlines the useful lives and capitalization threshold for each group of capital asset that will be used to determine the depreciation charge annually. The property schedule is updated and maintained by the Finance Department.

Controllable Assets. Assets with a historical cost less than $15,000 and/or with a useful life of less than one year will not be included in the property inventory. However, if the Department Heads feel that it is necessary to track the assets due to the sensitive, portable, and/or theft-prone nature of the assets, they may keep their own listing separate from the Finance Department property listing within the capital asset system.

Costs Related to Asset Acquisition. The cost of a capital asset includes not only its purchase price or construction cost, but also any other reasonable and necessary costs incurred to place the asset in its intended location and use. Such costs could include but are not limited to the following:

- Legal and title fees
- Closing costs
- Appraisal or negotiation fees
- Surveying fees
- Damage payments
- Site preparation costs
- Demolition costs
- Architect and accounting fees
- Engineering and design fees
- Implementation costs for software
- Installation costs
- Shipping and handling charges

Section 2: Asset Groups and Depreciable Life

Below is an outline of capital property groups which include but are not limited to the sub-categories listed. The Finance Department shall maintain the schedule in accordance with GASB standards and best practices.

1. Land and Improvements ($15,000 threshold)
    a. Land (not depreciated)
    b. Improvements other than Building (10-40 years useful life)
2. Buildings and Improvements ($15,000 Threshold, 50-75 years useful life)
    a. Buildings
    b. Improvements
    c. Construction Work in Progress (CWIP)
3. Vehicles/Equipment ($15,000 threshold, 5-10 years useful life, except software which is 3-4 years)
    a. Office Machinery and Equipment
    b. Furniture and Fixtures
    c. Computer Software
    d. Computer Hardware
    e. Communication Equipment
    f. Telecommunication Equipment
    g. Capitalized Leases
    h. Portable Equipment
    i. Plant Equipment
    j. Playground Equipment
    k. Cars
    l. Trucks
        i. Passenger
        ii. Medium Service
        iii. Heavy Service
        iv. Road Tractors
    m. Vans
    n. Boats
    o. Sidewalk Machines/Sanders
    p. Mowers
    q. Heavy Equipment Construction
    r. Other Vehicles
4. Infrastructure ($15,000 threshold, 40 years useful life)
    a. Roads
    b. Sidewalks
    c. Bridges
    d. Drainage Systems
    e. Sewer systems
    f. Water systems
    g. Outdoor Lighting
    h. Recreation Fields
    i. Kiosks

5. Historical Treasures (Historical Society Museum contents-$15,000 threshold)

After capital assets have been acquired and made ready for use, additional costs may be incurred. Costs incurred to achieve greater future benefits should be capitalized, whereas expenditures that simply maintain a given level of services should be expensed. Keep in mind that most expenditures below the capitalization threshold are not capitalized.

Buildings. This includes the value of all buildings at purchase price or construction cost. The cost should include all charges applicable to the building, including broker or architect's fees, engineering and design fees, etc. Additions, improvements, and Leasehold Improvements to buildings as well as the cost of the heating and ventilating system or other permanently attached fixtures should be added to the building group when these costs are considered betterments. Heaters and air conditioners that are portable in nature and not physically attached to the building may be classified as machinery and equipment if the purchase price meets the capitalization threshold.

Improvements Other Than Buildings. Improvements other than building should be used to record such items as excavation, non-infrastructure utility installation, driveways, parking lots, flagpoles, retaining walls, and fencing. Items not included are landscaping, demolition, land acquisition, and movable equipment such as picnic tables.

Construction Work in Progress (CWIP). This category should be used when a government reports amounts expended on an uncompleted building or other capital construction project. When the project is complete, the cumulative costs are transferred to the appropriate permanent capital asset account. It is the duty of the Finance Department to keep CWIP current. The completion of the work should be noted and CWIP should be relieved of all charges included and moved to a permanent asset account.

Machinery and Equipment (Included in Vehicles/Equipment group). Machinery and equipment should consist of property that does not lose its identity when removed from its location and is not changed materially or expended in use. This property should be recorded at cost, including freight, installation and other charges incurred to place the asset in use. The cost of the asset acquired when payment is made includes both cash and a trade-in that is the sum of the cash paid plus the fair market value of the asset traded-in. If the fair market value of the asset being traded-in is not readily determinable, cost may be recorded as the cash paid plus the book value (asset cost minus accumulated depreciation) of the asset traded-in. All assets acquired by gift should be recorded on the basis of their estimated fair market value at the time of acquisition. Depreciation for this asset group varies based on the category type.

Motor Vehicles (Included in Vehicles/Equipment group). Motor vehicles should include all vehicles for which title and license must be obtained such as cars, trucks, buses, ambulances, boats, airplanes, motorcycles, and road-going trailers. Vehicle accessories will be identified as a component asset of the vehicle to which it was attached. Vehicle accessories depreciation will follow the depreciable life of the vehicle. Depreciation for this asset group varies based on the category type.

Department Heads will get quotes for new vehicles and after the purchase of a new vehicle has been approved by the Municipal Manager and requisitioned, a purchase order is originated. The Municipal Manager signs the purchase order and once the vehicle is received and invoiced, the standard payable process is followed (see Cash Management Policy under Disbursements section). The Town Clerk is responsible for maintaining the title of the vehicle. Upon disposal/sale of motor vehicles, the Municipal Manager gains custody of the title from the Town Clerk and is responsible for signing the title at the time of disposition.

Infrastructure. Infrastructure should include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, outdoor lighting systems, and similar assets that are immovable and of value only to the Town. Infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets. Road costs are capitalized when the physical attributes are changed such as a road widening or if the road base is changed. Resurfacing of roads is considered a maintenance cost and will be expensed instead of capitalized.

Section 3: Depreciation

Definition. The usefulness of most assets, other than land and historical art or treasures, declines over time. Depreciation is the term most often used to indicate that tangible assets have declined in service potential. In accounting terms, depreciation is the process of allocating the cost of tangible property over a period of time. Generally, at the end of an asset's life, the sum of the amounts charged for depreciation (accumulated depreciation) will equal original cost less salvage value (if applicable).

Depreciable property must meet the following qualifications:

- It must have a useful life of more than one year.
- It must wear out or lose value over time.

Depreciation Calculation. The Town of Waterbury will calculate depreciation based on the straight-line method, and record the annual depreciation costs for all categories of assets at year-end in the Town's property schedule. The information needed to calculate depreciation is as follows:

1. Date the asset was placed in service;
2. Asset cost or acquisition value;
3. Asset salvage value;
   a) Assigned generally to vehicles or equipment that cost $15,000 or more.
4. Asset estimated useful life, set forth in Section 2.

Under the straight-line depreciation method, the basis of the asset is written off evenly over the useful life of the asset. In general, the amount of annual depreciation is determined by dividing an asset's depreciable cost less salvage value by its estimated useful life. The total amount depreciated can never exceed the asset's historical cost.

Assets will be placed in service or disposed of on the first day of the month of acquisition or disposal so that depreciation may be calculated on a full month basis. Depreciation ends when an asset's basis is fully recovered, or when it is disposed of or sold. If an asset becomes temporarily idle, depreciation continues to be claimed. Should an asset not be fully depreciated prior to being taken out of service, depreciation will be discontinued. If the asset is ever put back into service, the depreciation will resume. If the asset is disposed or sold, the remaining depreciation on the asset will be recognized as a gain/(loss) at that time.

In summary, the annual amount of straight-line depreciation is determined by the following equation:

Annual depreciation = (historical cost-salvage value)/useful life in years

Keep in mind that the equation changes for the year of acquisition and disposition as follows:

Annual depreciation = ((historical cost-salvage value)/useful life in years)(% of year depreciated)*

Section 4: Surplus Property-Disposition of Capital Assets

General Guidelines. Surplus property is defined as assets retained by the Town of Waterbury that are not currently in use. The Finance Department continues to administer assets when they are declared surplus by their respective users. The asset remains with the appropriate department until the asset is sold by public bid and is physically removed. The Finance Department will remove it from the property schedule at the end of the year in which it was sold. Sale details will be provided to the Finance Department so the appropriate entries may be recorded in the property schedule.

Recognition of Gains and Losses. In accordance with GASB standards, if an asset is sold, retired, or lost before its useful life has ended, then a gain or loss will need to be reported. The Finance Department will follow the appropriate standards for recognizing the gains or losses upon disposition of all capital assets and record the transaction in the property schedule.

Section 5: **Physical Inventory of Capital Assets**

Inventorying is necessary for accountability and control. Inventorying establishes a direct relationship between actual and recorded fixed assets. An inventory ensures that capital asset transactions have been and are being recorded properly. An inventory also ensures that asset policies and procedures are being followed correctly.

In the fall of each year, a complete capital assets listing will be furnished to each Department Head along with the insurance property listing. A comprehensive inventory should be conducted in time for the inventory to be returned to the Finance Department by the deadline outlined in the transmittal communication. After the annual inventory has been conducted, the Department Head will reconcile differences, resolve discrepancies, and return the corrected inventory listing to the Finance Department. The Finance Department will update the capital asset system for the changes submitted by the Department Head.

The Town shall safeguard all assets, including those used in non-federally funded operations as well as federally funded operations. In both cases, the Town will follow COSO guidelines for internal controls as outlined in the Town of Waterbury Controls Guidance document which covers the requirements for those operations that are funded by federal grants, as promulgated in the provisions of Title 2, Part 200.302, Part 200.303, Part 200.313, and Part 200.335 of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Grant Guidance").

The foregoing Policy is hereby adopted by the Select Board of the Town of Waterbury this 19th day of December, 2022 and shall be effective January 1, 2023 until amended or repealed.

Michael Bard, Chair

Dani Kehlmann

Roger Clapp

Alyssa Johnson

Christopher Viens