

CAPITAL ASSETS AND DEPRECIATION POLICY:

SECTION I : BACKGROUND:

Under the new requirements of the Government Accounting Standards Board (GASB) Statement No. 34, we will be required to capitalize and depreciate long-term assets in our annual financial statements. This statement is effective for the Town of Windham for the year ended December 31, 2004. As of January 1, 2004 we will record in our fixed asset system our full inventory of existing capital assets, including land, buildings, vehicles and equipment. We will record our existing assets at cost minus accumulated depreciation to date and, for those that are not fully depreciated, record annual depreciation thereafter. Any new capital assets acquired after January 1, 2004 will be recorded in accordance with this policy. The portions of this policy relating to "infrastructure" are only applicable to acquisitions after January 1, 2004, as the statement does not require us to go back and record infrastructure assets existing prior to the statement's effective date. However, the Town has elected to record our existing infrastructure assets based on cost estimates provided by an external appraisal firm as of December 31, 2004.

The term "capital assets" is used to describe assets that are used in operations that have initial lives extending beyond a single reporting period. Examples are land, land improvements, buildings, building improvements, vehicles, machinery, equipment, infrastructure and intangible assets. Items with useful lives greater than 2 years are "capitalized" according to the thresholds established in this policy. These items are then depreciated on a systematic basis over their useful lives. Items that do not fall under the capitalization criteria described within should be expensed as incurred.

SECTION II : AUTHORITY:

These policies are adopted by the Board of Selectmen in accordance with RSA 31:39 as it relates to their management of the Town's prudential affairs and their authority over expenditures.

SECTION III : OBJECTIVES:

- A) To provide control of and accountability for the Town's capitalized fixed assets, ensuring all recorded assets are classified properly, accurately and systematically.
- B) To ensure the Town has adequate information necessary to report on the assets in the annual audited financial statements and a documented audit trail of transactions.

SECTION IV : GENERAL POLICY:

Capitalization is a financial reporting concept. This does not eliminate the need for proper tracking of assets for insurance needs or other purposes. The level at which individual items will be capitalized and depreciated for financial reporting purposes is \$5,000. However, all machinery and equipment which costs more than \$500 should be tracked on an individual basis by the department for inventory purposes (department heads should use their discretion for inventorying items costing between \$100 and \$500).

Exceptions to capitalization:

There are certain items that due to their nature should be inventoried and/or depreciated although their values may not require it:

- Police weapons – all items should be inventoried regardless of cost, however, a capitalization threshold of \$5,000 should be applied to the group.
- Computer equipment - all items should be inventoried regardless of cost.
- Assets purchased with Federal grants – all items greater than \$1,000 should be inventoried, but capitalized if greater than \$5,000.
- Group aggregation – if the amount of a single item is less than \$5,000 but the aggregate cost of a quantity of the same item being purchased is in excess of the \$5,000, the items should be capitalized as a group, if it is normal business practice to purchase and replace the items as a group.

SECTION V : ASSET VALUATION:

Capitalized assets should be recorded at historical cost or, if the cost is not readily determined, at estimated historic cost. All costs shall be documented, including methods and sources used to establish any estimated costs.

- Purchased assets – the recording of purchased assets should be made on the basis of actual costs, including all ancillary costs, based on vendor invoice or other supporting documentation. For buildings and improvements, ancillary costs include professional fees of architects, attorneys, etc., costs of fixtures permanently attached to a building or structure, and other expenditures necessary to place the building into its intended use. For equipment, ancillary costs include transportation charges, installation costs and other expenditures necessary to place the equipment into its intended use.
- Self-constructed assets – all direct costs (including labor) associated with the construction project should be included in the asset cost.
- Donated assets – assets acquired by gift, donation or payment of a nominal sum not reflective of the asset's market value shall be assigned cost equal to the fair market value at the time of acquisition. Fair market value represents the price actually given in current market dealings or the price a willing buyer would pay a willing seller to exchange property.

- Land - All land with title owned by the Town, regardless of the cost, will be capitalized. This includes conservation land, gifted properties, land acquired through tax deed and general municipal properties. The land/foundation underneath all Town roads will be capitalized.
- Infrastructure - Town roadways and the associated storm drainage/pipeline/catch basin systems underneath, as well as bridges/culverts, will be capitalized. New roadways will be capitalized at the time they are officially accepted by the Town. The amount capitalized will be based on the cost to build the roadway as provided by the developer's bid sheet, which includes all costs to prepare and build the roads. Bridges will be capitalized at the cost of construction (or reconstruction).

SECTION VI : ASSET CLASSIFICATION:

Capital assets should be classified in one of the following categories and depreciated (except land) according to the schedule in section VII:

- 1) Land - Expenditures for the purchase of land with title owned by the Town. May include closing costs, appraisals, legal and title fees, purchase of rights of way and site preparation.
- 2) Land Improvements - Expenditures for acquiring improvements to land or property surrounding the buildings (not associated with building structure itself). Includes improvements that deteriorate with use or passage of time such as drainage systems, driveways, parking lots, sidewalks, fences, area lighting of streets and parking lots, retaining walls and athletic fields/courts. This may include expenditures for improvements that produce permanent benefits, such as fill and grading costs, that are intended to make the land ready for its purpose.
- 3) Buildings - Expenditures for contracted construction of new permanent structures, additions to or acquiring of existing buildings, not including land. However, this also includes the cost of blasting and preparing the land on which the building will stand, as well as the cost to demolish any structures being replaced.
- 4) Building Improvements - Expenditures for improvements to existing buildings, including property permanently attached to, or an integral part of, the structure. This includes major permanent structural alterations, roof replacements, interior or exterior renovations, fire protection systems installation or upgrade, electrical and plumbing upgrades, HVAC installation or upgrade and installation of elevators. Each improvement will be capitalized and depreciated as its own asset, separate from the original building asset.
- 5) Vehicles, Machinery and Equipment - Expenditures related to the acquisition of vehicles and equipment (i.e. heavy equipment, public safety equipment, furniture and fixtures and computer/electronic equipment). This category would also include collections such as long lived books.

- 6) Infrastructure – Expenditures for construction of, or major renovation to, long-lived fixed assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets - including roadways, bridges and drainage systems. This also includes the cost of demolition. It does not include any buildings or equipment related to these systems. For roadways, capitalization would apply to full reconstruction or shim and overlay projects valued at more than \$50,000, but not to maintenance items such as crack sealant.
- 7) Construction in Progress – Expenditures for construction work undertaken, but not yet completed (usually a capital project). For construction in progress assets, no depreciation is recorded until the asset is placed in service. When construction is completed, the asset should be reclassified as building, building improvement, land improvement or equipment and should be capitalized and depreciated. A project is considered complete if it is 90% complete and is being used for its intended purpose.
- 8) Computer Software – This intangible asset includes externally purchased software costs, not including hardware components. For purposes of capitalization, this does not include software which is utilized by the Town in accordance with an annual licensing agreement (such as Munis software modules, Vision software and Microsoft software), as this software is not considered “owned” by the Town. Any capitalized software amount should include only the direct costs of obtaining the software. Upgrades and enhancements should only be capitalized if such costs increase the life or functionality of the product. Costs involved in implementing the software such as training and data conversion costs, as well as ongoing maintenance agreements, should be expensed.

SECTION VII : DEPRECIATION:

The straight-line method will be used when calculating depreciation, taking into consideration salvage value at the end of the asset’s useful life (assumed to be zero for reporting purposes). Straight-line assumes that the asset will depreciate at the same rate each year of its useful life. The policy for recording depreciation on capital assets is to take one full month’s depreciation in the month in which the asset is placed in service, regardless of when it was actually placed in service during the month, and each month thereafter. Depreciation for all assets will be run through the fixed asset software once a year at fiscal year-end closing. Infrastructure will be depreciated, however, land and construction in progress will not. Depreciation of intangible assets is referred to as amortization and is calculated in the same manner as tangible assets. The following table reflects the useful lives of the various categories of capital assets and will be used in calculating depreciation:

CATEGORY	EXAMPLES	USEFUL LIFE
Land	All Town owned land	None
Land Improvements:		
Ground work	Athletic fields, drainage systems	15
Structural	Parking lots, sidewalks, fences/gates, courts, skate park, perm tables/benches	12
Other	Lighting, stone walls	15
Buildings	Permanent (including additions/ADA improv)	40
Building Improvements	HVAC, conveyor system, overhead doors, roof, windows	20
Vehicles, Machinery & Equipment		
<i>Vehicles:</i>		
Light Vehicles/Equip	Autos/cruisers, van, pickups, ambulances, rescue boats/trailers	6-10*
Heavy Vehicles/Equip	Fire apparatus, trailers, loaders, mack truck, dump truck	6-20*
<i>Computers & Electronics:</i>		
Office	Copiers	7
Computers	Servers, specialty printers	5
Library, Elections	Microfilm Scanner, Voting machines	10
Communications (mobile/portable)	Radios, recorder & CCT equipment, cable studio equipment (cameras, video mixer)	10
Communications (fixed/permanent)	Telephone PBX, base stations	20
<i>Public Safety:</i>		
Firefighting	SCBA gear, compressor, thermal imager	10
Mechanical	Vehicle lift	15
Medical	Defibrillator/Lifepak units	5
<i>Furniture & Fixtures:</i>		
Indoor	Counters, partitions, reference desks, wall storage units, mechanical shelving	15
Outdoor	Playground, bleachers, benches, picnic tables, scoreboards, radio tower equipment	15
Other	Carpeting	5
<i>Books & Collections</i>	Library books	5

Infrastructure		
Roadway Reconstruction	Full reconstruction projects	20
Roadway Paving	Shim & overlay projects greater than \$50,000	10
Other Infrastructure	Bridges, culverts, fire hydrants, storm drains	50
Construction in Progress / Computer Software		None

* Refer to Vehicle Replacement Guidelines in the Town’s Vehicle Maintenance Policy (Appendix F) for specific estimated useful lives for each vehicle type within these categories.

Depreciation Examples

For assets held for their entire useful life (or beyond), depreciation is recorded annually based on cost divided by # of years per above. Once fully depreciated, capital assets will remain on the books (net of accumulated depreciation) as long as they remain in use. Certain assets that are capitalized and depreciated as a group, such as computer equipment or books, will be written off the year it becomes fully depreciated.

Example: A copier was purchased in July 2000 for \$5,000 (estimated life for this example is 5 years). Depreciation per year is calculated at \$1,000 per year (\$5,000 / 5), however, the first year must be adjusted for the number of months in service:

<i>Year</i>	<i>Fiscal Year</i>	<i>Depreciation Expense</i>	<i>Accumulated Depreciation</i>
1	2000	\$500	\$500
2	2001	\$1,000	\$1,500
3	2002	\$1,000	\$2,500
4	2003	\$1,000	\$3,500
5	2004	\$1,000	\$4,500
6	2005	\$500	\$5,000
7 through disposal year	2006 through the disposal year	\$0	\$5,000 (asset carried at \$0 - \$5,000 cost net of \$5,000 accumulated depreciation)

Each year the asset will be reflected on the financial statements at its net book value, or cost minus accumulated depreciation to date. For assets disposed of before their useful life is reached, the current net book value will be written off as a loss.

Example: Assume that in the example above, the copier was disposed of anytime during 2004:

<i>Year</i>	<i>Fiscal Year</i>	<i>Depreciation Expense</i>	<i>Accumulated Depreciation</i>
1	2000	\$500	\$500
2	2001	\$1,000	\$1,500
3	2002	\$1,000	\$2,500
4	2003	\$1,000	\$3,500
5	2004	\$0	\$5,000 (asset carried at \$0 – remaining depreciation of \$1,500 recorded as loss)
6	2005	\$0	\$0 (asset no longer on books)

SECTION VIII : CAPITAL LEASES:

Capital leases that meet the Town's capitalization threshold and meet the definition of a capital lease in Appendix A, will be capitalized and depreciated in accordance with this policy. As of the effective date of this policy, the Town does not have any capital leases.

SECTION IX : RETENTION:

For each capital asset recorded in the Town's fixed asset system, evidential information such as invoices, contracts, deeds, purchase orders, appraisals and/or other methods used to estimate actual costs shall be obtained by the department heads and provided to the Administrative Offices for filing in a centralized fixed asset file. This documentation should be kept in a permanent folder and maintained until the asset is disposed of (once the annual audit has been completed for the year of disposal).

SECTION X : ANNUAL PHYSICAL INVENTORY:

All departments shall take a complete physical inventory of all assets meeting the inventory threshold set forth in this policy. Inventories shall be updated on an annual basis and submitted to the Administrative Offices by April 1st of each year.

SECTION XI : INTERNAL CONTROLS:

All departments should have procedures in place so that assets are adequately safeguarded from loss or theft, that adequate documentation is maintained to support the cost of the assets and proper approvals are obtained for all acquisitions in accordance with the Town's Purchasing Policy.

SECTION XII : AMENDMENTS:

These policies may from time to time be amended by the vote of the Board of Selectmen at a properly scheduled Selectmen's Meeting. Notice of proposed changes shall be posted in at least two (2) public places, one of which must be the Town Hall, at least 14 days from the date of the meeting.

SECTION XIII : EFFECTIVE DATE:

These policies shall be effective upon a vote of the Board of Selectmen.

Adopted by the Board of Selectmen – April 11, 2005

Roger Hohenberger
Bruce Breton
Galen Stearns
Alan Carpenter
Margaret Crisler
Board of Selectmen

**APPENDIX A
DEFINITIONS**

Accumulated Depreciation	The total depreciation expense accumulated since the acquisition date of the fixed assets to the current fiscal year.
Amortization	The systematic allocation of the cost of an intangible asset over its intended useful life.
Asset Inventory System	<p>A system within the Finance Department providing control of and accountability for the Town's capitalized fixed assets; ensuring all recorded assets are classified properly, accurately and systematically; providing information necessary for departments to monitor the physical condition of the assets; providing information necessary to report on the assets in the annual audited financial statements and a documented audit trail of transactions. The asset inventory system, known as the Munis fixed asset system, will contain the following:</p> <ul style="list-style-type: none"> a. Acquisition date – the date the Town takes title to, or assumes responsibility for, a long-term asset; b. Description – a descriptive name of the asset including physical location; c. Cost – the total cost to acquire and place the asset in service; d. Disposal date (as applicable) – the date the Town/department officially surrenders title, or use of, the asset.
Book Value	The cost of the fixed asset less the accumulated depreciation recorded to date (also referred to as Carrying Value).
Capital Lease	<p>A lease with contractual terms transferring substantially all benefits and risks inherent in ownership of the property to the Town. One or more of the following criteria must be met, to qualify as a capital lease:</p> <ul style="list-style-type: none"> 1) By the end of the lease term, ownership of the leased property is transferred to the Town; or 2) The lease contains a bargain purchase option; or 3) The lease term is equal to 75 percent or more of the estimated useful life of the leased property; or 4) The present value of the minimum lease payments (at the inception of the lease), excluding executory costs (usually insurance, maintenance, and taxes, including any profit thereon), is 90 percent or more of the fair market value of the leased property. <p>Items that qualify as a capital lease must be capitalized and depreciated.</p>

Capitalize	To record as a long-term asset. The recorded amount is the cost to acquire the asset plus all costs necessary to get the asset ready for its intended use (known as ancillary costs).
Depreciation	The systematic allocation of the cost of a fixed asset over its intended useful life.
Depreciation Expense	The amount of depreciation allocated for the current fiscal year.
Depreciation Method	For purposes of implementing GASB 34, depreciation will be calculated using the straight-line depreciation method. Straight-line assumes that the asset will depreciate at the same rate each year of its useful life.
Disposals	Long-term assets that are no longer used by the Town. These assets should be removed from the Town's asset inventory system. Refer to the Town's Purchasing Policy for guidelines regarding disposal of surplus property.
Documentation	Data such as invoices, purchase orders, contracts, memos, minutes, bids, etc. supporting the entries made in the asset inventory system.
Fixed Asset	Tangible assets that are durable in nature, which are acquired for use in operations and not intended for resale, which yield service/benefit over a number of years.
Intangible Asset	Long-term assets that have no physical substance and are used in operations to produce products or services. Intangible asset costs must be systematically allocated to expenses over their useful life through a process called amortization.
Right of Way	A legal right of passage over another person's ground, such as a strip of land over which a public road is built. Right of Ways include all Town roads and the land on either side, and should be capitalized as Land.
Transfers	Assets that have been re-assigned to another department. These assets should remain in the Town's asset inventory system. Any documentation supporting the asset should be forwarded to the department the asset has been transferred to.
Useful Life	The length of time something is expected to last for its intended purpose (i.e. depreciable life).