



TOWN OF OLD SAYBROOK
CAPITAL ASSET POLICY
ADOPTED BY BOARD OF FINANCE: November 15, 2016

PURPOSE:

The purpose of this Policy is to comply with the requirements of Governmental Accounting Standards Board (“GASB”) Statement No. 34, “Basic Financial Analysis and Management Discussion and Analysis for State and Local Governments” in order to ensure accurate capitalization of assets for inclusion in the Town’s financial statements. This policy establishes guidelines for the record keeping of capital assets, including acquisition, thresholds for capitalization, determination of useful life, inventory and disposition. The policy also seeks to define the responsibilities and obligations of Town officials and departments to protect the value of the assets, maintain custody and control, provide adequate levels of insurance and ensure detailed record keeping of capital assets.

DEFINITION OF CAPITAL ASSET:

Capital assets include: land, land improvements, easements, buildings, building improvements, vehicles, machinery and equipment, works of art, infrastructure such as roads and water lines, all other tangible and intangible assets.

To be considered a capital asset for financial reporting purposes, an item must be at or above the capitalization threshold (see below) and have a useful life greater than one year. Improvements must be an expansion of capacity rather than replacement or maintenance in order to be considered capital assets. An example would be the cost of repaving an existing parking lot would not be a capital asset (it would be expensed in the fiscal year the work is performed), but the cost of adding new spaces to that existing parking lot would be a capital asset. If an improvement increases capacity, or significantly increases the asset’s useful life, then it should be capitalized if the cost is over the threshold.

THRESHOLDS:

If the value of an asset at time of purchase or receipt by the Town is higher than the thresholds below, the asset is capitalized and depreciated over its useful life. A total purchase for an amount greater than the threshold which consists of multiple items below the threshold will not be capitalized. An example would be one chair purchased for \$5000 would be capitalized while five chairs purchased at \$1000 each would not be capitalized.

Description	Threshold
Vehicles, Machinery, Equipment	\$5,000
Improvements (Ex: land, building, etc.)	\$20,000
Infrastructure (Examples: New roads, bridges, water lines, etc.)	\$75,000
Land (not depreciated and has an infinite useful life)	Any value

ASSET VALUES:

Purchased capital assets are recorded at their historical cost including any capitalized interest and ancillary charges (e.g. freight and transportation charges and site preparation) necessary to place the asset into its intended location and condition for use. Donated assets are valued at fair market value on the date of the donation.

Assets created with grant or debt funds will utilize a separate fund during the construction or creation period of the asset. It will be categorized as a “work in progress” until such time as the project is complete. Upon completion its total cost will be considered the acquisition cost and it will be capitalized and added to the capital asset system.

Assets purchased with funds budgeted to the capital expenditure account must have a project identified for which funds are being requested. Once a project is completed, and its cost known, it will be recorded as a capital item.

Throughout the fiscal year, as funds are appropriated it will be assessed as to whether the funds are to be used to purchase an item that meets the criteria of capital assets and treated accordingly.

As part of the year-end closing, the Accounting Department will request from the Board of Education a list of capital assets. On an annual basis the BoE will supply the Town with a copy of any capital asset purchase orders over \$5,000. The Town will then put the asset into its capital asset system, which is used to prepare the financial statements. The purchase orders will be collected throughout the fiscal year by the BoE and given to the Town by the end of August.

DEPRECIABLE (USEFUL) LIVES:

Capital assets are depreciated (expensed) using the straight line method over the years they are actually expected to be used by the Town. In cases where vehicles are used by more than one Town department (e.g. used by Police for three years, then by another department), useful life is based on the usage of the Town as a whole, not just the originating Department. The Finance Director will determine the useful life of each new capital asset in consultation with the applicable department head, particularly in the case of specialized equipment. The following are ranges of useful lives by type of asset based on past experience and usage:

Capital Asset	Useful Life
Computer equipment	5
Equipment	5-20
Vehicles	5 - 8
Sidewalks	20
Minor Building Improvements (e.g. sculptures, signs)	20
Intangible assets (copyrights, patents, etc.)	30-50
Buildings/Maj. Building & Land Improvements:	50-100
Roads, Catch Basins	30

PURCHASE:

All purchases of capital assets shall comply with Chapter 5 (Bidding) of the Code of the Town of Old Saybrook and any other applicable provisions of Town Charter, Code or resolution of the Board of Selectman dealing with procurement and purchasing. Specifically, items to be purchased over \$10,000 require competitive bidding. Department heads should consult with the First Selectman and Finance Director prior to purchasing a capital asset to ensure that the purchase has the necessary funding and that proper procedures and policies are being followed. The department head will be responsible for providing detailed information for each capital asset to allow for it to be tracked, monitored and placed in the capital asset system. The type of information needed for each item will be dependent upon the asset but will include items such as identification number, make, model, location, acquisition cost, and a detailed description of the asset. The Accounting Department will then add the asset into the capital asset system.

Insurance

Insurance protection is a necessary aspect protecting the assets of the Town. Adequate insurance coverage can further reduce the risk of loss to capital assets. To determine the adequacy of insurance protection, complete and accurate asset records are essential. Good records will establish the ownership, value, condition, location and custodian of all Town property.

INVENTORY:

When capital assets are received, Department Heads shall ensure that any inventory control tags or identification as established by the Finance Director will be affixed as appropriate. There shall be a physical inventory of vehicles and equipment conducted by the Finance Director at a minimum of bi-annually in order to safeguard assets. The Finance Director shall be assisted during the inventory by Department Heads as necessary. A report on the results of said inventory will be made by the Finance Director to the Boards of Selectmen and Finance within thirty (30) days of the completion of the inventory. Any unresolved discrepancies in matching physical assets to the capital asset record maintained by the Accounting Department found during the inventory shall be immediately reported to the First Selectman for further action.

ASSET DISPOSAL/IMPAIRMENT:

Impairment of Capital Assets

Capital asset impairments are to be reported when they occur. A capital asset is considered impaired when its service has declined significantly and unexpectedly. A capital asset generally should be considered impaired if both (a) the decline in service of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used should be reported at the lower of carrying value or fair value.

It is the responsibility of the Department head to report to the Finance Director/Accounting Department when any capital asset is significantly impaired by accident, other damage or level of use to the extent that it will no longer be used for as long as originally recorded. This report should include a revised estimate of the remaining useful life (if any) for that asset so that records and depreciation schedules can be adjusted accordingly. The Finance Director/Accounting Department shall also be notified if there is a transfer of responsibility for the asset from one Town Department to another.

Disposal of Capital Assets

When a new asset is purchased that replaces an existing asset, a determination must be made as to what will happen with the existing asset. When an asset is no longer of use to the town, a report shall be filed immediately with and to the First Selectman recommending the asset's disposal

The disposal form shall include the method of disposal (e.g. sale by auction, including on nationally recognized websites or by listing on the Town's website or local paper, trade in, or scrap). Where feasible (and in all cases for assets over \$5000 in residual value), asset disposal should be done through a documented competitive process such as bidding or auction. If an asset has a remaining value of \$25 thousand or greater, the sale must be brought to the Board of Selectman for approval. The asset disposal form should be sent to the Finance Director/Accounting Department so that the asset can be removed from the capital asset system.

When an asset is disposed, a gain or loss must be recognized in the financial statements when:

- Cash is exchanged and the amount paid does not equal the net book value of the asset, or
- Cash is not exchanged and the asset is not fully depreciated or has a residual value.

A gain or loss is not reported when:

- Cash exchanged equals the net book value and the asset does not have a residual value, or
- Cash is not exchanged and the asset is fully depreciated/amortized and has no residual value.