TOWN OF FAIRFAX

Fixed Asset Capitalization and Disposition Policy

1. PURPOSE. The purpose of this policy is to ensure adequate control of the Town of Fairfax's fixed assets. The procedures are intended to define fixed assets and to establish guidelines for the financial reporting, depreciating, and disposing of fixed assets. The Town's fixed assets shall be used for appropriate Town purposes and be properly accounted for and secured. It is the responsibility of the Treasurer to ensure fixed assets are inventoried on a regular basis, and accounted for by fund and asset category. It is the responsibility of Department Heads to ensure that proper budgeting and purchasing guidelines are followed, that fixed assets are adequately controlled and used for appropriate Town purposes, and to secure such fixed assets.

2. DEFINITIONS.

Buildings: Buildings are purchased or constructed and also include such structures as pavilions and bath houses. Construction projects are initially capitalized to construction in progress. Subsequently, the capitalized expenditures are recorded as an asset. If a building is acquired by purchase, the capitalized cost should include purchase price and other incidental expenses incurred at the time of acquisition. If a building is constructed, the capitalized cost should include all reasonable and necessary costs incurred to construct the building and prepare it for its intended use such as engineering or architectural fees, permits, interest during construction, appraisal, or legal fees.

Building Improvements: Any change to the building which increases its future service potential and extends its useful life. Capitalized cost for building improvements include expenditures incurred to increase the service potential of the building including the contract price, engineering, architectural, and attorney's fees.

Construction In Progress: Expenditures that will be categorized upon their completion and placement in service. Costs to be capitalized include direct costs, such as labor, materials, and transportation, indirect costs such as engineering and construction management, and ancillary costs such as construction period interest.

Components: The capitalization threshold will generally not be applied to components of fixed assets. For example, a keyboard, monitor, and central processing unit purchased as components of a computer system will not be evaluated individually against the capitalization threshold. The entire computer system will be treated as a single fixed asset.

Computer Software: Software is not capitalized because of its short useful life and the high annual maintenance and upgrade costs.

Depreciation: Depreciation is computed using the actual months in service.

Donated Assets: Assets received in a voluntary non-reciprocal transfer from another entity such as gifts of capital assets. Donated assets are recorded at their fair market value or appraised value at the time of gift.

Equipment: An article of non-expendable, tangible personal property that is free standing, movable, is complete in its self, does not lose its identity when affixed to or installed in other property and has a useful life greater than one year. The cost of equipment includes all expenditures incurred for the equipment and preparing it for its intended use. This includes the invoice purchase price, one-time charges for freight and handling, insurance on the equipment while in transit, cost of special foundations if required, assembling and installation costs, and blueprint and development costs if applicable.

- This category includes delivery equipment, office equipment, machinery, furniture and fixtures, factory equipment, tools and vehicles (autos, plow and dump trucks, fire vehicles).
- Equipment also includes self-constructed equipment where the total unit cost incurred to fabricate the equipment is $5,000 or more.
- Enhancement parts that materially and permanently increase the value or useful life of equipment is also included. A system with multiple components which cannot operate independently of each other and together cost $5,000 or more will also be capitalized. The rule-of-thumb is that for a component to be included in the original acquisition cost of a piece of equipment, it should be an attached or installed option which, as assembled, is expected to operate as one unit for the remainder of its life.

Exceptions to Equipment

- Assets purchased as repair parts for existing parts in previously tagged equipment
- Materials used in repair or replacement of assets in structures
- Household equipment (drapes, carpet replacement)
- Built-in equipment- such items become part of the building or structure after installation and may be capitalized as building improvements. For example - built-in cabinets, garbage disposals, furnaces, and air conditioners. Please see the definition of Building Improvements.

Individual Units: The capitalization thresholds are applied to individual units of fixed assets. For example, ten desks purchased through a single purchase order each costing $1,000 will not qualify for capitalization even though the total cost of$10,000 exceeds the threshold of $5,000. However, a single purchase of multiple units totaling $50,000 or more in aggregate will be capitalized. Desktop Computers, Laptops, Tablets, Telephones, Radios, Library Books, not meeting this unit cost threshold shall not be capitalized.

Infrastructure: Long-lived capital assets that are part of a network of assets that can have service potential for an extended period and that are normally stationary. Example of infrastructure networks - roads, sidewalks, electrical, sewer and water systems, fiber optic cabling system, transit systems, bridges, dams and tunnels, parking lots. See separate section for more information on this category. All expenditures incurred to acquire or construct infrastructure assets are capitalized.

Improvements: Improvements to existing fixed assets will be presumed (by definition) to extend the useful life of the related fixed asset and, therefore, will be subject to capitalization only if the cost of the improvement meets the appropriate threshold.

Land: Land purchased or acquired by gift or bequest. All expenditures incurred to acquire land and to prepare it for its intended use. These costs include purchase price, closing costs, and assumption of any liens, mortgages, or encumbrances on the land. Land acquired by gift should be recorded at its fair market value. Land also includes easements.

Land Improvements: Land improvements (including excavation, ditching, grading, tree removal, and subgrade preparation) are to be recorded as fixed assets, by year, and will not be depreciated. Land Improvements that are to be depreciated include fencing, tennis courts. If buildings are razed to prepare the land for its intended purpose, the cost of razing the buildings should be capitalized as land improvements.

Leased Assets: Assets that are purchased under lease purchase contracts or agreements. The purchase price of the asset is capitalized. Interest cost is recorded as an expense. Leased assets are capitalized if the non-cancelable lease agreement meets any one of the following requirements (as prescribed by Statement of Financial Accounting Standards No. 13):

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains a bargain purchase option, i.e., allows the lessee to purchase the asset for a price that is substantially lower than the expected fair value of the asset at the date the option becomes exercisable.
- The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
- The present value of the minimum lease payments at the inception of the lease equals at least 90 percent of the fair value of the leased property.

Lease agreements not meeting any one of the above criteria are considered operating leases and not capitalized. The period payments are recorded as an expense.

Repairs and Maintenance: Expenditures incurred to maintain assets in operating condition. Repairs and maintenance do not usually make the asset more useful or add to the estimated life of the asset by more than 25%. Repairs and maintenance are not subject to capitalization. Replacing minor part on equipment, replacing carpet, painting, or repairing a fence are examples of repairs and maintenance.

Infrastructure Assets: Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets. In general, all infrastructure assets, including streets, roads, sewer lines, water lines, sidewalks, traffic signals, with an original cost of $25,000 or more, will be subject to accounting and reporting (capitalization). All costs associated with the purchase or construction should be considered, including ancillary costs such as design engineering, construction management, inspection, permits, insurance, freight and transportation charges, site preparation expenditures, installation charges, professional fees, and legal costs directly attributable to asset acquisition. Capital projects will be capitalized as "construction in progress" until completed. Costs to be capitalized include direct costs, such as labor, materials, and transportation, indirect costs such as engineering and construction management, and ancillary costs such as construction period interest.

3. ACCOUNTING AND FINANCIAL REPORTING. In general, all fixed assets, including land, buildings, machinery and equipment, with an original cost of $5,000 or more per unit, with a useful life of one year or more will be subject to accounting and reporting (capitalization). See chart below for specific thresholds. All costs associated with the purchase or construction should be considered, including ancillary costs such as freight and transportation charges, site preparation expenditures, installation charges, professional fees, and legal costs directly attributable to asset acquisition. Specific capitalization requirements are described below. Federal grant funded fixed assets with an original unit cost of $5,000 and a useful life of one year or more shall be capitalized to comply with grant regulations.

Category	Capitalization Threshold	Depreciable Life in Years
Land	$25,000	N/A
Buildings & Improvements	$25,000	30-80
Recreational Facilities	$25,000	10-25
Land Improvements	$25,000	30-50
Equipment & Furniture	$5,000	5-10
New Vehicles	$5,000	5-10
Capital Project in Progress	$25,000	N/A
Bridges	$25,000	25-50
New Streets (grading, base, & paving)	$25,000	50
Sidewalks, Curb, or Ditch	$25,000	50
Street Trees	$25,000	50
Parking Lot	$25,000	30
Gravel Surface	$25,000	8
Repaving (top coat)	$25,000	7
Asphalt Surface	$25,000	10
Storm Drains & Culverts	$25,000	50
Water System	$25,000	50
Sewer System	$25,000	50

4. ACQUISITION & INVENTORY

Fixed assets shall be acquired in conformance with the Town of Fairfax's Purchasing Policy. Department heads are responsible for safeguarding fixed assets under their control from theft or loss. However, the Finance Department is responsible for establishing and maintaining systems and procedures that enable Department Heads to properly safeguard assets. The Treasurer will work with Department Heads to conduct a physical inventory and reconciliation of all capitalized assets every other fiscal year. All assets must be accounted for and their current condition recorded. Upon completion of the physical inventory, any useful lives may be adjusted based on their findings.

5. DISPOSAL OF FIXED ASSETS. An infrastructure asset is usually only disposed of in connection with its replacement or reconstruction. Fixed assets may be disposed of through trade-ins or other quotes received from vendors when acquiring new like assets. For assets not being traded or sold when acquiring like assets, the Town Manager shall consider whether the asset is appropriate for use in other departments. Fixed assets that can not be traded or repurposed by the Town, may be offered to the public through notice on Town web site and at least one other method of notice of multiple people, including but not limited to: online or print newspapers, electronic bulletin boards such as craigslist, other surplus equipment disposition systems. Full payment will be required at time of acquisition with bills of sale issued when payment is received. All bills of sale shall include the language: "As is, where is, no warranties or guarantees express or implied" shall be include on the bill of sale. The Town Manager shall sign the bill of sale on behalf of the Town. Copies of proof of payment for asset, bill of sale, and bid summary form shall be provided to finance after the asset is sold. The Treasurer shall record the disposition of the asset following receipt of funds.

5. ADOPTION. The foregoing Policy is hereby adopted by the Selectboard of the Town of Fairfax, Vermont, this 18th day of July, 2022 and is effective as of this date until amended or repealed and replaces all previous fee policies and schedules.

Steve Cormier, Chair

Alan Maynard, Vice Chair

Randy DeVine

Stephen Bessette

Duane Leach