Town of Stratford - Council Policy		
Name:	**Fixed Asset Capitalization and Depreciation Policy**	**Policy Number: 2004-FA-01**
Committee:	**Finance and Administration**	**Approval Date: June 9, 2004**

BACKGROUND:
Effective January 1, 2003, the Town of Stratford moved from a cash basis of accounting to a full accrual method of accounting. Through the process of changing accounting methods, it was identified that the Town did not have a capitalization and depreciation policy in place.

ISSUE:
Establishing an overall standard for recording, tracking and depreciating the Town's fixed assets. The policy must establish efficient and effective guidelines for tracking and safeguarding the Town's assets.

RECOMMENDED POLICY:

A. Asset Capitalization

1) Equipment, furniture, software, buildings, and improvements with a cost in excess of $500 and an estimated useful life of two years or more should be capitalized at cost.

2) All costs associated with placing an asset in service, including freight, installation costs, site preparation costs, alterations, and professional fees should be included in the capitalized value. If Town employees contribute significantly to the completion of a capital project, the associated salaries, wages, benefits, and other costs should be included in the capitalized value.

3) Interest expense on capital debt incurred during the construction or renovation of an asset should be included in the capitalized value in accordance with Generally Accepted Accounting Principles (GAAP). The interest capitalization period begins with the first expenditure for the asset, except for projects financed by the proceeds of tax-exempt debt restricted to the specific projects, in which case interest is capitalized from the date of borrowing. The interest capitalization period ends when the asset is substantially complete and ready for its intended use as evidenced by a final inspection date or occupancy date.

4) Construction in progress for capital projects should be capitalized at the end of each fiscal year. Construction in progress is not depreciated. When the capital project is completed and the asset is placed in service, the construction in progress account is replaced with an asset such as building, improvements, etc., and depreciation should begin as prescribed in Section B of this policy.

5) Capitalized Leases are leases that transfer substantially all the benefits and risks inherent in ownership of the property to the lessee, who accounts for the lease as an acquisition of an asset and a liability. Capital leases should be recorded as assets along with the corresponding liability in accordance with GAAP.

6) Annual repair and maintenance expenditures are not considered capital improvements and should not be capitalized unless they add to the value of the property or materially prolong its useful life.

7) Assets costing below $500.00 are expensed; they are not capitalized nor depreciated for financial reporting purposes. A list of assets costing less than $500 is to be kept for control purposes only. These assets are considered inventoried assets and are not to be recorded in the general ledger as a fixed asset. A physical inventory will be taken of capital and inventoried assets at least once every two years.

B. Asset Valuation

In accordance with GAAP, fixed assets will be recorded at historical cost or estimated historical cost. Cost includes purchase price or cost of construction plus any other charges incurred to place the asset in its intended location and condition for use.

C. Tracking and Inventorying of Assets

All capitalized and inventoried assets must be tagged with an inventory number. An inventory list will be created and will list each capitalized/inventoried asset separately with its associated inventory number, the date the asset was purchased, location, the cost of the asset, the cost account, current year depreciation, accumulated depreciation to date, salvage value, and date of disposal.

D. Donated Assets

Donated assets should be recorded at their fair market value on the date donated. The fair market value is the estimated amount at which the asset would be exchanged between a willing buyer and seller when neither are forced into the exchange. Both parties should have knowledge of all facts and consider it an equitable exchange.

E. Depreciation of Assets

Depreciation is the allocation of the total acquisition cost of a fixed asset over its estimated useful life. The Town will apply the straight-line method of depreciation when depreciating fixed assets. Depreciation for partial periods is to be calculated for half of the year.

Straight-line is a time-based method used when the service life of the asset is affected primarily by the passage of time. Straight-line depreciation is calculated by dividing total asset cost (section A.2) by the estimated useful life in years. The estimated useful life of a depreciable asset is the period over which services are expected to be rendered by the asset. The Town of

Stratford will use Table A, fixed asset useful life, (below) in determining the useful life of Town assets.

Land, certain land improvements, construction-in-progress, and inexhaustible works of art, historical treasures and similar assets will not be depreciated. Land is considered to have an unlimited useful life and its salvage value is unlikely to be less than its acquisition cost. Certain land improvements may be considered to have an unlimited useful life and therefore are also not depreciated. A non-depreciable land improvement must have permanent benefits.

TABLE A.

Fixed Asset Useful Life

Description	Years
General Infrastructure	40
Buildings	20-25
Additions/Renovations	20
Furniture and Furnishings	10
Machinery and Equipment	5
Automobiles	5
Computers (Hardware)	5
Computers (Software)	3
Land	N/A