



TOWN OF MERRIMACK

CAPITAL ASSET AND DEPRECIATION POLICY

I. PURPOSE:

Every Capital Asset has limited useful service life that spans more than one year. These are categorized as Land, Land Improvements, Buildings, Building Improvements, Construction in Progress, Fixed Equipment, Movable Equipment, and Vehicles. The Town will identify and record Capital Assets in its accounting records. It will determine depreciation based on the historical acquisition costs of the assets and utilize a straight-line method of depreciation over the estimated useful life of the asset. Donated Capital Assets are recorded at estimated fair value at the date of donation if received on or before June 15, 2015. Donated Capital Assets received after June 15, 2015 are recorded at acquisition value. The primary goals of this policy are to ensure that the Town's capital assets are accounted for in conformance with generally accepted accounting principles; and to establish a consistent and cost-effective method for accounting of the Town's capital assets.

II. APPLICATION:

This policy applies to all Capital Assets owned, acquired, or disposed of by the Town of Merrimack.

III. DEFINITIONS:

- a) **Land:** Expenditures for the purchase of land. This includes closing costs, appraisals, and purchase of rights-of-way and/or site preparation.
- b) **Land Improvements:** Expenditures for acquiring improvements to land (not associated with building) intended to make the land ready for its purpose. These assets include, but are not limited to, landscaping, property drainage, driveways, parking lots, sidewalks, monuments, fences, area lighting of streets and parking lots, driveways, fences, retaining walls, and athletic tracks and fields. Asset cost could include costs of studies, architectural and consulting fees for new or renovated improvements.
- c) **Buildings:** Expenditures for contracted construction of new buildings, additions to or acquiring of existing buildings. This also includes the cost of demolition. This should include the initial cost of major building equipment components.

- d) **Building Improvements:** Expenditures for improvements to existing buildings. This includes major permanent structural alterations, roof or window/door replacements, interior or exterior renovations, fire protection systems installation or upgrade, electrical and plumbing upgrades, heating, ventilation and air conditioning systems (HVAC), elevators, power generation, and other service systems of buildings.
- e) **Machinery and Equipment:** Expenditures for equipment usually composed of a complex combination of parts, excluding vehicles.
- f) **Vehicles:** Expenditures for vehicles used to transport persons, objects or large quantities used in construction. Examples include police cruisers, pick-up trucks, ambulances, fire apparatus, dump trucks, backhoes, graders, etc., including the installation of any related equipment.
- g) **Furniture and Fixtures:** Expenditures for initial, replacement of additional furnishings and fixtures used in business/office facilities, including purchases of carpeting, desks, chairs, bookcases, counters, etc.
- h) **Infrastructure:** Expenditures for construction of, or major renovation to infrastructure, including roadways and bridges. This also includes the cost of demolition. It does not include any buildings or equipment related to these systems.
- i) **Roadways:** Expenditures for construction of, or major renovation to roadways including the cost of development roads once accepted by the Town as Class V roads. This includes shim and overlay expenditures, as well as maintenance items such as crack sealant if they are deemed to add useful life to the asset.
- j) **Bridges:** Expenditures for construction of or major renovation to bridges. This includes pedestrian as well as vehicular bridges.
- k) **Depreciation Expense:** The apportioned cost of a fixed asset over its useful life.

IV. POLICY:

The following table depicts the balance sheet and expenditure object codes of capital asset items, the dollar level at which the items will be inventoried and capitalized and whether the item is depreciated.

Table 1.

<u>Classification</u>	<u>Inventory</u>	<u>Capitalize</u>	<u>Depreciate</u>
Land	All	All	No
Land Improvements	\$10,000	\$10,000	Yes
Buildings	All	\$10,000	Yes
Building Improvements	\$10,000	\$10,000	Yes
Building Systems	\$10,000	\$10,000	Yes
Construction in Progress	\$10,000	\$10,000	No
Machinery & Equipment	\$10,000	\$10,000	Yes
Vehicles	\$10,000	\$10,000	Yes
Furniture and Fixtures	\$10,000	\$10,000	Yes
Infrastructure	\$10,000	\$10,000	Yes

In accordance with Federal Regulations, any capital asset acquired with federal funds shall be inventoried and capitalized at a \$5,000 threshold. In addition, assets acquired prior to the effective date of this policy and capitalized at a lower threshold, may continue to be depreciated on the basis of past practice.

Depreciation: The straight-line method of depreciation is used to calculate depreciation. The Town may take into consideration salvage value at the end of an asset's useful life. Grouped assets will not be assigned a salvage value.

The policy for recording depreciation on capital assets is to take a full year's depreciation in the fiscal year in which the asset is placed in service, regardless of when it was actually placed in service during the year.

The following table reflects the useful lives of the various categories of capital assets for municipal government.

Table 2.

<u>Category</u>	<u>Examples</u>	<u>Years</u>
Land		None
Land Improvements:		
Ground Work	Landscaping	20
Structural	Fencing, Parking Lots, Retaining Walls	30
	Cisterns, Drafting Pits	
Other	Area and Street Lighting	15
Infrastructure	Drainage, retention ponds, culverts	50
Buildings:		
Permanent		50
Temporary		20
Building Improvements		40
Building Systems:		
HVAC		20
Power Generation		15
Computer/Communications Equipment		5-10
Machinery and Equipment		15
Vehicles:		
Light Vehicles	Police Cruisers, Trucks	6
	(<= GVRW 16,000lbs.), Ambulance	
Heavy Vehicles	Trucks (> GVRW 16,001 lbs)	10
Construction Equipment		
	Excavator, Frontend Loader, Backhoe	15
Fire/Rescue Vehicles		
	Engine, Pumper	10
Furniture and Fixtures:		
Office Fixtures	Counters, Cabinets,	15
	Desks, Tables, Chairs	
	Carpeting	7
Software		7
Roadways:		
Asphalt		20
Gravel		15
Bridges	Vehicle, Pedestrian	50
Construction In Progress		None

Establishing and Setting the Threshold Levels for Recording Capital Assets:

Estimated Useful Life – The first criterion is useful life. An asset must have an estimated useful life greater than one reporting period to be considered for capitalization and depreciation. Assets that are consumed, used-up, habitually lost or worn-out in one year or less should not be capitalized.

Estimated useful life means the estimated number of months or years that an asset will be able to be used for the purpose for which it was purchased. In determining useful life, governmental entities should consider the asset’s present condition, use of the asset, construction type, maintenance policy, and how long it is expected to meet service demands.

Asset Cost – The second criterion for determining depreciable capital assets is cost. Governmental entities do not need to capitalize every asset with a useful life greater than one year. Generally, only assets with an acquisition cost of greater than \$10,000 will be capitalized.

Write Off of Capital Assets:

Assets will be written off the books, along with its accumulated depreciation, when the asset is no longer in use. Assets fully depreciated, but still in use, will remain on the books. Certain assets that are capitalized and depreciated as a group will be written off the year it becomes fully depreciated.

V. AMENDMENTS:

This Policy may, from time to time as needed, be amended by a majority vote of the Town Council at a regularly scheduled Council meeting.

VI. EFFECTIVE DATE:

This policy shall be effective upon a vote of the Merrimack Town Council and shall replace any and all Capital Asset Policies previously enacted by the Town.

Effective: _____

Adopted by the Merrimack Town Council on _____

