

TOWN OF BEDFORD
OPERATING POLICY MANUAL

Chapter: Finance

Issue (Effective) Date: July 1, 2017

Approval Date: June 13, 2017

Approved By: Town Council

CAPITAL ASSET MANAGEMENT

Section 1. PURPOSE

This policy is to document the Capital Asset Management procedures of the Town of Bedford ("Town"). The purpose of this policy is to provide guidelines to complete a comprehensive process that allocates limited resources in capital investment and to ensure that capital assets are accounted for in conformance with generally accepted accounting principles. The primary objective of this policy is to establish criteria to systematically identify, plan, schedule, finance, track and monitor capital projects to ensure cost-effectiveness and consistent application throughout funds.

Section 2. POLICY

- A. The Town will prepare, adopt, and update at least annually a five (5) year Capital Improvement Plan (CIP). The CIP will identify and set priorities for all major capital assets to be acquired, replaced, constructed, or rehabilitated by the Town. The first year of each adopted five year CIP will be included in the budget for the coming fiscal year.
- B. The Town will adhere to the following threshold when accounting for capital assets:
 - 1. Capitalization of individual assets that cost \$5,000 or more and have an estimated useful (depreciable) life of at least two (2) years.
 - 2. Assets acquired with debt proceeds may be capitalized regardless of cost.
 - 3. Individual assets that cost less than \$5,000, but that operate as part of a network system may be capitalized in the aggregate, using the group method, if the estimated average useful life of the individual asset is at least two (2) years. (A network is determined to be where individual components may be below \$5,000 but are interdependent and the overriding value to the Town is on the entire network and not the individual assets.)
- C. The Town will adhere to the following ranges in setting estimated useful lives for depreciating assets:

1. Land	No Depreciation
2. Land Improvements	20 – 30 years
3. Buildings & Improvements	7 – 40 years
4. Machinery & Equipment	5 – 30 years
5. Infrastructure	20 – 50 years
- D. In accordance with generally accepted accounting principles, the Town will value its capital assets at historical cost. Historical cost includes the cost or estimated cost at the time of acquisition, freight charges, installation and site preparation charges, and the cost of any subsequent additions or improvements, excluding repairs. If a capital asset is donated to the Town the asset will be valued based on the fair market value at the time the asset is donated.
- E. For internal control purposes, the Town may maintain an inventory of listing of certain assets (controlled equipment) that do not meet the established capitalization amounts. Controlled

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equipment includes items that should be specifically accounted for and inventoried periodically due to the high re-sale value of the equipment and potential risk of theft. Controlled equipment may include items such as computers, construction equipment, and other office equipment. Each Department Head is responsible for all controlled equipment within their areas of responsibility.

- F. As part of the financial audit, the Finance Department shall submit a capital asset report to the Town's independent auditor on an annual basis. This report will include the following information:
 - 1. Asset Tag Number
 - 2. Asset Description
 - 3. Date of acquisition
 - 4. Acquisition cost
 - 5. Estimated useful life
 - 6. Annual depreciation
 - 7. Accumulated depreciation
- G. The Town will use the Straight-Line Method as its basic or standard approach to depreciate capital assets. The Modified Approach, which does not require depreciation, may be used on infrastructure assets whenever applicable and approved by the Town's independent auditor.
- H. The following criteria are the basis for distinguishing costs as either a capital expense or as a repair and maintenance expense:
 - 1. With respect to improvements on non-infrastructure and infrastructure capital assets, under the Basic Approach, costs should be capitalized if the useful life of the asset is substantially extended, or the cost results in a substantial increase in the capacity or efficiency of the assets. Otherwise, the cost should be expensed as repair and maintenance.
 - 2. With respect to improvements on infrastructure capital assets under the Modified Approach, costs should be capitalized if expenditures substantially increase the capacity or efficiency of an infrastructure. Otherwise, costs, including those that preserve the useful life of an infrastructure asset, are expensed.
- I. To the extent possible, improvement projects and major equipment purchases will be funded on a "pay-as-you-go" basis from existing or foreseeable revenue sources. Fund balances above established reserve requirements may be used for one-time expenditures such as capital equipment or financing of capital improvements.
- J. Disposal and/or transfer of Town assets will be performed in accordance with applicable Town policies and procedures.

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Section 3. OBJECTIVES

- A. The primary objectives of the Capital Asset Management Policy shall be as follows:
 - 1. To operate and maintain the Town's physical assets in a manner that protects the public investment and that ensures a maximum useful life.
 - 2. To seek to match the useful life of projects with the maturity of the debt when considering debt financing.
 - 3. To develop a replacement program for the capital assets in association with other financial policies in an effort to plan for large expenditures and to minimize deferred maintenance costs.
 - 4. To allow project planning giving consideration to longer-range needs and goals, as well as, enabling the Town to evaluate funding options while gaining a consensus on project priorities.

Section 4. PROCEDURES

- A. Town Council:
 - 1. Approve Capital Asset Management Policy.
 - 2. Manage capital assets through review of the annual budget process and the Comprehensive Annual Financial Report (CAFR).
- B. Town Staff:
 - 1. Manage capital assets through operational procedures.
 - 2. Submit a capital asset report to the Town's independent auditor on an annual basis.
 - 3. Review capital assets acquisition and repair needs during the annual budget process.
 - 4. Maintain an inventory of listing of controlled equipment.
 - 5. Dispose of and/or transfer of Town capital assets in accordance with policies and procedures.
 - 6. The Town Manager is authorized to adjust this policy where necessary.

Section 5. REVISIONS

- A. This policy was approved and adopted by the Town Council on June 13, 2017.

Revisions
Original-June, 2017