Vermont Information Technology Leaders	
Name:	***Capitalization & Depreciation Policy***
Type of Document:	*Policy*
Type of Policy:	*Financial*
Sponsoring Department(s):	*Finance*
Sponsor:	*CFO*
Approving Official or Body:	*CEO & Finance Committee*
Effective Date:	*July 17, 2023*
Review Cycle:	*Four Years*

Purpose

The purpose of this policy is to ensure that accounting for capital assets, including Depreciation, by VITL are in conformity with accounting principles generally accepted in the United States of America ("GAAP") and in compliance with federal regulations. Vermont Information Technology Leaders, Inc. (VITL) may be the recipient of Federal grant funds, the use of which is subject to certain Notices of Grant Awards ("NGAs") and Health Human Services ("HHS") grant administration regulations found in 45 C.F.R. Part 75—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR HHS AWARDS. It is the intention of VITL to satisfy the policy requirements of such regulations in the event that compliance is required pursuant to the awarding of federal grants in the future.

Scope

1. This Policy shall promote VITL's compliance with the applicable Federal and State rules, regulations, and laws. In the event of a conflict between the provisions of this Policy and the requirements of an applicable state or federal statute or regulation, the applicable statute or regulation shall prevail.
2. This policy applies to all capital assets of VITL regardless of funding source.
3. This Policy sets forth internal guidelines for the benefit of VITL and its officers, directors, employees and agents, and does not confer any right or other benefit on any third party. The provisions of this Policy may not be used by any third party in any action or other proceeding against VITL or its interests.

Definitions

1. **Capitalization –** An accounting method which allows a newly purchased assets to be depreciated over its useful life, rather than being expenses in the current period.
2. **Depreciation** – The method for allocating the cost of capitalized assets to periods benefitting from asset use.

Policy

1. **Capitalization of Assets**
   a. Acquisitions of real or personal property (including, for example, furniture, equipment, leasehold improvements) costing more than $5,000 per unit and having an economic useful life of more than one year are considered capital assets and the costs capitalized on the balance sheet.
   b. When existing assets are improved, and those improvements cost more than $5,000 and either extend the useful life of or add new functionality to the underlying asset, the improvements should be capitalized on the balance sheet.
   c. Bulk purchases of similar assets that in total cost more than $5,000 and have an economic useful life of more than one year should be capitalized on the balance sheet.
   d. For all capital assets, the amount capitalized should be the full asset cost including the purchase price, delivery fees, assembly or installation charges, and design fees.
   e. For internally developed software, only costs associated with the Application Development Stage (such as coding and configuration) should be capitalized. Costs associated with the Preliminary Project Phase (such as concept formulation and evaluation of alternatives) as well as costs associated with the Post-Implementation Stage (such as training and data conversion) should be expensed. Capitalizable costs include external direct costs, and internal payroll and related costs for those employees who work directly on the development of the software.
   f. In accordance with 45 §75.439, capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except with the prior written approval of the HHS awarding agency or pass-through entity such as the State of Vermont. These capital expenditures will be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the HHS awarding agency.
2. **Depreciation**
   a. VITL may be compensated for the use of its buildings, capital improvements, equipment, and software projects capitalized in accordance with GAAP, provided they are used, needed in its activities, and properly allocated to Federal awards.
   b. VITL will Depreciate capital assets over their estimated useful lives according to the following schedule:
      a. Furniture and Fixtures: 7 years
      b. Computer Equipment and Peripherals: 3 years
      c. Software Purchased for Internal Use (excludes SaaS): 3 years.
      d. Software Developed for Internal Use: 3 years.
      e. Implementation Cost of a SaaS System for Internal Use: Term of the SaaS contract.
      f. Buildings: 40 years
      g. Land Improvements 15 years
      h. Leasehold Improvements: the shorter of the remaining lease term or the life as listed in this schedule.
   c. Land is not depreciated.
3. **Disposition of Capital Assets**
   a. A gain or loss on the disposition of an asset will be recognized upon date of disposition based upon the net book value of the asset.

   b. For equipment financed by federal funding and disposed of, proceeds from the sale of real property, equipment, or supplies, are not program income; such proceeds will be handled in accordance with the requirements of subpart D of this part, §§75.318, 75.320, and 75.321, or as specifically identified in Federal statutes, regulations, or the terms and conditions of the Federal award.

4. **Impairment**
   a. Long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows. An impairment charge, if any, is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

5. **Leases**
   a. At inception, each lease should be classified as either operating or financing, in accordance with ASU 842. Financing leases result in the recognition of an asset and a financial obligation. Operating leases result in the recognition of a right of use asset and a corresponding lease liability. Leases with terms of 12 months or less do not require the recognition of an associated asset or liability. Leases with assets and liabilities of less than $5,000 are not considered material and do not need to be recognized on the balance sheet.

6. **Recordkeeping**
   a. In accordance with 45 §75.436, VITL will maintain a capitalized asset listing which will include information necessary to calculate Depreciation and indication of any direct-funded items. Listing must contain the source of funding, title holder, percentage of Federal participation, use/condition of property, and disposition data for each asset.

Enforcement

1. Repeated violations of this Policy may result in disciplinary action.
2. This Policy replaces and supersedes any and all prior policies and procedures on this subject matter as of the Effective date of this Policy.

References

1. 45 §75.318 - Real Property
2. 45 §75.320 - Equipment
3. 45 §75.321 - Supplies
4. 45 §75.436 - Depreciation
5. 45 §75.439 - Equipment and Other Capital Expenditures
6. ASU 842 - Lease Accounting

Review and Revision History

Date	Changes Made	Completed By
7/17/2027	Next Review Due	
5/10/2023	Policy reviewed and updated, reconfigured for new template and data for new sections added	Cara Callanan, CFO
4/17/2019	Updated	Robert D. Turnau, CFO

4/22/2010	Policy initiated	Rebecca Bowen, CFO

Approvals

Cara Callanan	7/17/2023
Reviewed by Sponsor	Date
Beth Anderson	7/17/2023
Approved by CEO	Date
Debra Royce	7/17/2023
Approved by Finance Committee	Date