



RESOLUTION 26-667

A RESOLUTION OF THE TOWN OF MOUNT CARMEL BOARD OF MAYOR AND ALDERMEN ADOPTING A CAPITALIZATION POLICY

WHEREAS, the Town of Mount Carmel is responsible for maintaining accurate and consistent financial records in accordance with generally accepted accounting principles and applicable state law; and

WHEREAS, the Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting standards for state and local governments; and

WHEREAS, the Town has historically followed standard accounting practices for capitalizing and expensing assets but has not previously adopted a formal, written capitalization policy; and

WHEREAS, adoption of a written capitalization policy is considered a best practice in municipal financial management and is recommended by the Tennessee Comptroller of the Treasury and the Municipal Technical Advisory Service (MTAS); and

WHEREAS, the Town is currently participating in a sewer rate study evaluation being conducted by MTAS, which requires consistent classification and documentation of capital and operating expenditures within the Sewer Fund; and

WHEREAS, adoption of a formal capitalization policy will codify the Town's existing practices, promote consistency and transparency in financial reporting, and support long-term capital planning and infrastructure management;

NOW, THEREFORE, BE IT RESOLVED, by the Board of Mayor and Aldermen meeting at Mount Carmel, Tennessee, on this 22nd day of January, 2026, that

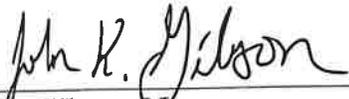
SECTION 1. The Capitalization Policy attached hereto and incorporated herein by reference is hereby adopted as the official capitalization policy of the Town of Mount Carmel.

SECTION 2. The policy shall apply town-wide to all departments and funds and shall govern the capitalization, depreciation, and disposition of capital assets for budgeting, accounting, financial reporting, and audit purposes.

SECTION 3. Adoption of this policy is intended to formalize and document existing capitalization practices and does not constitute a substantive change to current accounting procedures.

This Resolution shall take effect immediately, the public welfare requiring it.

ADOPTED this 22nd day of January, 2026



John Gibson, Mayor

Attest:



Tyler Williams, Town Recorder





Town of Mount Carmel Capitalization Policy

Purpose

This Capitalization Policy is designed to ensure a uniform understanding of the Town of Mount Carmel's capitalization practices for assets. This policy establishes the method of maintaining fixed asset information and the minimum cost (capitalization amount) that shall be used to determine the fixed assets that are to be reported in the financial statements in accordance with standards established by the Governmental Accounting Standards Board (GASB).

Capital Asset Classifications

- **Land** - Land is the surface on earth, which may be used to support structures. Land improvements consist of betterments, site preparation, and site improvements (other than buildings) of a permanent nature that ready the land for its intended use. The costs associated with improvements to land are added to the cost of the land. Land and land improvements are inexhaustible assets and do not depreciate over time.
- **Buildings** - A structure that is permanently attached to the land and is not intended to be transportable or moveable. Building improvements are capital events that materially extend the useful life of a building, increase the value of a building, or both. A building improvement should be capitalized and recorded as an increase to the value of the existing building if the cost of the improvement meets or exceeds the capitalization threshold and increases the estimated useful life.
- **Improvements other than Buildings**- Include depreciable improvements and betterments made to land of a permanent nature, other than buildings that add value to land, but do not have an indefinite useful life.
- **Machinery and Equipment** - An apparatus, tool, or conglomeration of pieces to form a tool, or purchased equipment, used in operations. These items can be fixed or movable tangible assets. They will stand alone and not become a part of a basic structure or building.
- **Furniture and Fixtures** - Represents items that are not permanently affixed to a building and are easily removable.
- **Vehicles** - Vehicles for which title and license must be obtained such as cars, trucks, boats, road-going trailers, etc.
- **Infrastructure** - Long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets. Infrastructure assets include drainage, water distribution, and sewer collection system rehabilitation, streets and parking lots, curbs and gutters, streetscape enhancements, bridges and tunnels, sidewalks, traffic signals and streetlights.

- **Construction in Progress** - Represents the temporary accumulation of costs, such as labor, materials, equipment, and any ancillary charges directly attributable to the construction of the project. The accumulation of costs continues in the CIP account until the project is complete. Once the asset is complete and placed into service, the costs are transferred from CIP to the appropriate capital asset category.

Capitalization Thresholds

Assets purchased, constructed, or received through capital lease or donation must be uniformly grouped into capital asset types. The following table summarizes the capitalization thresholds for the town’s capital asset types. Amounts are capitalized when the individual cost equals or exceeds the applicable threshold amount.

Type	Threshold Amount
Land	Purchase Price
Buildings	\$5,000
Improvements	\$5,000
Infrastructure	\$5,000
Mach & Equipment	\$5,000
Furniture & Fixtures	\$5,000
Vehicles	\$5,000

Capital Asset Costs

Capital assets are stated at historical cost or, in some instances, estimated historical cost. Donated capital assets are reported at acquisition value. Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend the asset’s life is not capitalized.

Capital assets, except for land, land improvements and intangible assets with an indefinite useful life are depreciated over their estimated useful lives.

Depreciation

Depreciation is the systematic and rational allocation of net cost (cost less estimated residual value) over the depreciable asset’s estimated useful life. Depreciation is calculated on a straight-line basis over the estimated useful life. Depreciation begins in the first month of use for a full month, or if the starting month is not known, depreciation is assumed for half of the fiscal year of implementation.

Residual value is the estimate of what an asset may be sold for at the end of its service life. The town utilizes capital assets until they are deemed worthless, so a residual value of zero (0) is assigned to all capital assets.

Useful Life

The useful life of an asset is that period during which the asset provides benefits. Estimates of useful life consider factors such as physical wear and tear and technological changes that bear on the economic usefulness of the asset. They typically have a useful life of more than one year. The city uses straight-line depreciation over the estimated useful life of the capital asset. Listed below is schedule used for its capital assets.

Type	Est Life (Years)
Land	Not Depreciated
Buildings	20 - 50
Improvements	20 - 50
Infrastructure	30 - 50
Water & Wastewater	
Pumps & Treatment	15 - 20
Transportation Equip	5 - 10
Lines and Storage	40 - 50
Well/Dam	Engineer Estimate
Wastewater System	40 - 50
Mach & Equipment	5 - 20
Furniture & Fixtures	7 - 10
Vehicles	5 - 10

Surplus Property- Disposition of Capital Fixed Assets

Surplus property is defined as assets retained by the city that are not currently in use. Once an asset is determined to be surplus, it is the responsibility of the governing body to declare the property as surplus and determine the method of disposal, which should be consistent with methods allowed under state law.

Procedures and Exceptions

The Finance Department will implement procedures that are in accordance with this policy. If a capital assets situation arises that is not covered within this policy, the governing body may authorize the method of handling. Assets not meeting the requirements above will be inventoried for tracking purposes to reduce the risk of loss.