

CAPITALIZATION POLICY

PURPOSE

To provide direction and guidance to staff for handling discretionary areas within Generally Accepted Accounting Principles (GAAP) for governmental entities. GAAP requires the capitalization of costs associated with the acquisition or construction of property, plant, and equipment (PPE). This document provides the general framework for determining whether such costs should be capitalized as PPE. The intent of capitalizing assets owned by the Authority is to spread the cost of an asset over the useful life of the asset rather than show the entire acquisition cost as an expense in the year it was acquired.

POLICY

1. Assets will be capitalized if the expected useful life exceeds one year and the value is at least \$1,500.
2. Assets with a value under the capitalization parameter will be expensed in the year purchased and recorded as such on the financial statements.
3. Capital assets are recorded at cost at the date of acquisition, or estimated fair value at the date of donation in the case of gifts. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly related to asset acquisition—such as freight and transportation charges, site preparation costs, and professional fees.
4. Capitalization is not appropriate and the cost will be expensed in the year purchased and recorded in the following situations: a) normal cost of maintenance and repairs that do not add to the value of the asset or materially extend its useful life, or b) improvements that “keep” property in efficient operating condition or c) restore the property to its previous condition, or d) routine maintenance, or e) incidental repair to property.
5. Straight-line method of depreciation will be used.
6. For depreciation purposes, no salvage value will be anticipated.
7. Capital assets will be depreciated in full year increments, starting in the fiscal year to which they are acquired. This applies to all capital assets exceeding the threshold, with the exception of land and easements which are not depreciated.