



POLICY TITLE: Capitalization Policy

POLICY NUMBER: 2172

PURPOSE: This capitalization policy provides guidelines for whether a purchase will be capitalized as an asset and depreciated or expensed as an operating expenditure.

DEFINITION: Capitalization is the process by which a purchase is recorded as an asset in the accounting records that then becomes subject to depreciation over a determined useful life.

The following guidelines dictate whether a purchase will be set up as an asset and depreciated or included in a department's operating budget as an operating expense.

A. FIXED ASSETS

1. A single item purchased that costs \$5,000 or more and has a useful life of two (2) years or more is a fixed asset. Compare with a purchase made of similar items that individually cost less than \$5,000, however, the aggregate purchase is over \$5,000; this purchase is outside the capitalization policy. For example, the purchase of five new computer setups at \$1,200 each, total purchase = \$6,000.00, is outside the policy and expensed.
2. The total cost of the item to include freight, sales tax and installation. It will not include District staff time and expense involved in the purchase and operation.

B. SOFTWARE PACKAGES

This refers to programs developed in-house, off-the-shelf packages, or software designed by an outside consultant.

1. Follow the same criteria as Fixed Assets and will be amortized over a time span of four (4) years.
2. Enhancements or upgrades to existing software will be capitalized if the original installation was capitalized.

C. EXISTING INFRASTRUCTURE

1. A purchase that costs \$25,000.00 or more and either adds to the useful life of the asset repaired or enables the repaired asset to live its intended useful life. The judgment of Water and Wastewater personnel would be used to determine useful life extension.
2. Purchase cost to include taxes, freight and installation. Cost also includes the services of a licensed professional needed to acquire or install.

For example, a generator part costs \$15,000 and related acquisition and installation costs push the cost over \$25,000. It falls within this policy.

D. WIP (WORK IN PROGRESS)

These are projects in process of becoming operational infrastructure components. The project is not at the point where it contributes a benefit to the District.

1. A general rule is any cost associated with the project regardless of cost.
2. The exception to the general rule is a cost under \$50 per invoice. Examples would be sporadic printing, postage, or travel costs.
3. Any professional service fee regardless of cost is included in the project cost.
4. Project lead person determines the moment the project is operational.

E. SENSITIVE ITEMS UNDER \$5,000

Examples are as follows: Computers and computer accessories, laptops, field tools, office equipment (copy and fax machines), and office furniture. These items generally are less than \$5,000 per item. When purchased they will be recorded and inventoried by department and position.

F. TRACKING

The District's method of tracking assets is an Excel spreadsheet. Copies of the invoice and check voucher will be made for backup when the payment is processed.