

Sudden Valley Community Association Capital Purchases and Capitalization Threshold Policy

Policy No. 2017-01 ACCT

Date: May 24, 2017

This policy was approved by the SVCA Board of Directors on June 8, 2017.

The capitalization policy of the Sudden Valley Community Association is to capitalize all property, fixed assets, having a useful life in excess of one year and which have been acquired at a cost in excess of \$2,500 per invoice (or per item as substantiated by the invoice). These items will be considered capital expenditures. Pending approval of the Board of Directors, these capital expenditures will be paid out of a reserve capital account.

Expenditures for fixed assets with a life of one year or less, and fixed assets with a purchase price of \$2,500 or less shall not be capitalized and shall be paid for out of Operating Funds.

Prior year approved capital expenditures that are in progress and not completed at the beginning of the next fiscal year need to be included in that year's capital plan (i.e. capital budget).

For current year capital expenditures, as soon as additional capital expenditures beyond the approved maximum dollars are identified the General Manager or his/her designate should notify the Treasurer and/or the President of the Board.

If an approved capital expenditure is completed under budget, the remainder of the funds shall remain in the source reserve capital account to be used on future capital expenditures.

Capital Expenditure vs. Operating Expense Definition

Capital expenditures, i.e. Fixed Assets or Capital Assets, are assets of a durable nature such as buildings, equipment (machinery, furniture, tools), software, roads, etc. or intellectual property. The major characteristics of fixed assets are:

- Fixed assets are acquired for use in operations and are not for immediate resale.
- Fixed assets have a useful life greater than one year and are usually subject to depreciation.
- Fixed assets may possess physical substance or may be intellectual property.

Historical cost is the usual basis for valuing a fixed asset. Historical cost is measured by the cash or cash equivalent price of obtaining the asset and bringing it to the location and condition necessary for its intended use. For example, the purchase price, freight costs, and installation costs of a productive asset are considered part of the cost of an asset.

After assets are ready for use, additional costs are incurred that range from ordinary repair to significant additions. Costs incurred to achieve greater future benefits should be capitalized while expenditures that maintain a given level of services should be expensed. For costs to be capitalized (capital expenditures), three conditions must be present:

- The useful life of the asset must be increased and exceed one year.
- The expenditures must significantly increase the value of the asset.
- The expenditures do not reflect routine repairs and maintenance to keep the asset in normal working condition

Expenditures that do not increase the useful life of the asset are expensed when incurred. Ordinary repairs are expenditures that maintain the existing condition of the asset or restore it to normal operating efficiency and should be expensed when incurred. In addition, expenditures below an established arbitrary amount (SVCA = \$2,500) should always be expensed. Examples of capital expenditures might include replacement of a roof that extends the useful life of the building, or a room added to an existing building. Examples of ordinary operating expenses that occur on a regular basis are lubricating and adjusting of equipment, replacement of minor parts, repainting and cleaning. Extraordinary repairs mean a reconditioning or major overhaul that will extend the useful life of an asset beyond the original estimate. This type of repair may be regarded as a capital expenditure since it increases the carrying value of the asset.

This Policy, Policy No. ____, Canceled/Superseded the following policies: No. 2002-4, 2001-2, 2000-30, and 2003-2.