

## **Item 5 – District Capitalization Policy**

One of the recommendations made by the audit firm Seidel Schroeder during the 2024 District Financial Audit, was to formulate and adopt a District Capitalization Policy. This policy would determine the level at which purchases would be carried as a capital asset and subject to depreciation.

I have queried other districts about their policies. I found only one that is currently considering the same procedure. The level set is specific to the size of the entity and the level of oversight you wish to have.

Most government entities follow the federal government template which has just recently changed from \$5,000 to \$10,000. It seems reasonable to set our capitalization level between \$2,000 and \$5,000. The General Manager recommends to set the lower limit for the District Capitalization Policy at \$2,500.

**It is the recommendation by the General Manager to adopt a District Capitalization Policy which begins at \$2,500.**

**Sent:** Wednesday, September 3, 2025 2:40 PM

**To:** TGR Office <[office@tgrgcd.org](mailto:office@tgrgcd.org)>

**Subject:** RE: capitalizing minimum

It depends on your size and the level of oversight your board wants.

For most governments they follow the federal government's lead and what they put in federal grant rules. Until recently that was \$5,000. They just upped that to \$10,000 next year.

Now that is probably too high for your guys. You want to think about it in terms of how the purchase impacts your financials. Is the purchase large enough that it distorts your financials (by overstating the expenses for that year) or is it something more routine?

You also want to think about how long this item is going to last and what the value of tracking is. For you guys, I wouldn't go below \$2,000. That is typically per item. So, if you bought three printers for \$2,500 I wouldn't capitalize those. But, I probably would capitalize a \$2,500 laptop.

Capitalization serves two purposes: tracking them item on a schedule (control over the asset itself) and smoothing out of the expense over the use of that asset.

If you say a printer is \$500 and will last 3 years....then you are looking at a \$500 expense when you buy it or a \$167 expense each of the next three years. I would imagine you would say either way is minimal impact, so take the easy route and expense that item right away for simplicity. If the asset is a 7 year life and \$5,000, then you are looking at a choice of a \$5,000 expense now versus \$714 each of the next 7 years. That is starting to be a bigger impact.

I hope that makes sense.

I tend to focus on the financial impact and prefer to expense as much as possible to limit the length of the depreciation schedule (and make it simpler for people to understand). But, you don't want to ignore your Board's thoughts about tracking these assets. They may prefer to track more from a control perspective. So, you have to balance the two.

For your second question, yes...whatever threshold you set puts it on the depreciation schedule.