CHELAN DOUGLAS REGIONAL PORT AUTHORITY
FIXED ASSET CAPITALIZATION POLICY

The following policies and procedures document a fixed asset system designed to comply with all statutory requirements and increase control over those assets for which the Chelan Douglas Regional Port Authority has stewardship responsibilities. The intent of these policies is to obtain accountability over assets, provide centralized documentation for insurance purposes, meet financial reporting needs, and generate asset management information.

POLICY

In general, costs meeting the following criteria will be capitalized as fixed assets:

(1) Generally, an individual purchase cost must exceed $5,000. Grouping of individual costs less than $5,000 is not appropriate unless the costs are individual components of an entire project (e.g., furniture acquisition or machine components purchased with the machine as a unit).

(2) The expected useful life must exceed one year.

(3) Expenditures must result in something of physical existence or substance supporting Port Authority operations; or expenditures must benefit future years through increased revenues or reduced expenses.

In addition, "small attractive assets", such as personal computers and peripherals, certain shop equipment and radios, which the Port Authority wishes to track, are capitalized for tracking purposes.

GUIDELINES

(1) New Plant And Facilities

(a) All costs associated with obtaining a fixed asset and getting it ready for its intended use are capitalized.

i. Land - Capitalize

a) the purchase price of the land, including appraisal fees;

b) any closing costs incurred;

c) costs incurred in getting the land in condition for its intended use, including excavation, grading, filling, draining, landscaping, and clearing;

d) the purchase price of easements and similar property rights;

e) any other costs directly attributable to the land purchase, including the costs to obtain entitlements to develop the property (zoning, platting, binding site plans, boundary line adjustments, and the like); and

f) any proceeds obtained in the process of getting the land ready for its intended use, such as salvage receipts, should be treated as a reduction in the price of the land.

When vacant land is purchased, all costs incurred up to the point of excavation for the new building are considered land costs.

ii. Buildings - Capitalize all costs related directly to acquisition or construction, including;

a) engineering labor and materials;

b) materials and labor incurred during construction; and

c) attorney's fees, architect's fees, insurance, and building permits and related development permits.

Generally all costs incurred starting with excavation to completion of the building are considered part of the building costs.

iii. Landscaping and Paving – Capitalize all costs related to landscaping and paving, assuming costs meet the necessary criteria related to amount and life.

iv. Equipment - Capitalize the purchase price, freight, and assembling and installation costs, including in-house labor.

(2) Existing Plant And Facilities

(a) In general, costs incurred to achieve greater future benefits are capitalized, whereas expenditures that simply maintain a given level of services are expensed. In order for costs to achieve greater future benefits, one of three conditions must be met: (1) the useful life of the asset must be increased (this means increased from its original estimated life, not restoring an asset in poor condition to its original estimated life); (2) the quantity of services produced from the asset must be increased; or (3) the quality of the units or services provided must be enhanced. In addition, costs incurred to existing plant and facilities must cost at least $5,000 to qualify for capital addition to the existing asset.

Expenditures that do not increase the service benefits of the asset or cost less than $5,000 are expensed. Expenditures that maintain the existing condition of the asset are repairs and maintenance and are expensed.

(b) Generally, existing facilities have the following three major types of costs: additions, improvements and replacements, and repairs and maintenance.

i. Additions are costs that increase or extend existing assets in a physical manner, such as adding on to a building or a new component for equipment. Additions are capitalized.

ii. Improvements and Replacements are substitutions of one asset for another. An improvement is the substitution of a better asset for one currently used (e.g., a concrete floor for a wood floor). A replacement is the substitution of a similar asset (a concrete floor for a concrete floor or a new engine in a piece of equipment). Improvements and replacements will most often occur when modernizing or rehabilitating an older building or piece of equipment. If such an expenditure increases the future service potential of the asset (by extending the original life or improving the quality or quantity of services provided), this cost is capitalized and the book value (cost less accumulated depreciation and salvage value, if any) of the old asset expensed. If an expenditure maintains the existing level of service or increases the level of service of a poorly functioning asset up to the expected level of service for such an asset, such cost is expensed. For example, a new roof which replaces an entire roof or entire sections of a roof is capitalized, while new roofing which patches or repairs sections of old roofing is expensed.

iii. Repairs and Maintenance expenditures are costs to maintain assets in their existing normal condition or to bring assets up to expected operating levels. These costs are expensed. These costs are distinguished from improvements or replacements by their failure to increase future service potential. The painting of existing buildings is generally expensed, unless the cost can be demonstrated to increase the life of the building and exceed $5,000 per project.

Asset lives, for depreciation purposes, are assigned by the Director of Finance & Administration, with the aid of project managers and engineers, and/or prior life history and standard treatment of similar items.

Depreciation begins in the accounting month following purchase or month placed in service.

If costs are incurred with original capitalization intent, and a decision is later made to abandon the project, costs incurred will be expensed in the current period.

Adopted by the Chelan Douglas Regional Port Authority Board of Directors

on September 10th, 2019.