



<b>Policy Name:</b> Capitalization Policy	<b>Policy Number:</b> FM004
<b>Original Date of Approval:</b> September 2019	<b>Policy Type:</b> Board
<b>Last Revision Date:</b>	<b>Review Cycle:</b> 5 years
<b>Date of Last Review:</b>	

**1.0 Purpose:**

Asset classification of capital assets and expenditures are necessary to:

- Ensure ESIO is complying with generally accepted accounting principles;
- Provide accurate financial reporting to management; and
- Prepare meaningful budgets.

**1.1 Capital Asset Definition:**

Capital assets are comprised of property and equipment for which there are future benefits to ESIO extending over one or more years. These assets are held for use in the supply of goods or services, for rental to others, for administrative purposes or for development, construction, maintenance or repair of other capital assets. These assets are not intended for sale in the ordinary course of business. New capital assets may be purchased in completed state or constructed by ESIO.

**1.1 Capitalization Threshold:**

Only assets with an individual cost of \$5,000 or greater will be capitalized. A group of assets costing more than \$5,000 in total, but not exceeding \$5,000 per individual asset will be expensed.

## **1.2 Repair vs Betterment:**

A cost incurred in the maintenance of an asset is considered a repair and should be expensed. For example, costs incurred to restore an asset to its normal operating condition is considered a repair. A cost incurred to increase the service potential of an existing capital asset is considered a betterment and should be capitalized. For example, costs incurred to extend the useful life or to enhance the capabilities of an asset is considered a betterment.

## **2.0 Capital Asset Categories:**

### **2.1 Land**

Land costs include all costs connected with the acquisition of the land and any costs incurred to prepare the land for its intended use. This may include acquisition costs such as, but not limited to, purchase price, real estate commissions, legal fees, escrow fees, etc. If the existing buildings on the land are demolished to prepare the land for its intended use, the cost of demolition should be capitalized as land. Land is not amortized.

### **2.2 Land Improvements**

Land improvements include, but are not limited to the cost of landscaping, fencing, drainage systems and paving of sidewalks, curbs and roadsides. All land improvement costs associated with newly constructed buildings should be capitalized as land, not land improvements.

### **2.3 Buildings and Building Improvements/Renovations**

Any new construction of buildings originates as construction in progress and is transferred to the building category when the building is substantially complete. If a building is purchased, the purchase price is capitalized. Any major improvements/renovations within an existing building will be added to the cost of the original building if ESIO is the owner of the building; or be added as a leasehold improvement if ESIO leases the building. The improvements/renovations will be amortized over the remaining life of the building/lease. Only improvements/renovations with a cost of \$50,000 or greater will be capitalized. Furniture and equipment are assessed separately from building renovations and are subject to the thresholds as detailed in this policy.

### **2.4 Equipment**

Any equipment in excess of \$5,000 with a useful life greater than one year is capitalized. Equipment less than \$5,000 is expensed in the year of acquisition.

**2.5 Computer Equipment**

Any computer equipment in excess of \$5,000 with a useful life greater than one year is capitalized. Computer equipment less than \$5,000 is expensed in the year of acquisition.

**2.6 Software**

All software in excess of \$5,000 with a useful life greater than one year is capitalized. Any software less than \$5,000, or that has a useful life less than one year is expensed in the year of acquisition. All costs incurred to prepare the software for its intended use will be capitalized. Once the software is capable of operating in the manner intended by management, capitalization of these costs will cease. Any subsequent expenditures shall be expensed when incurred, unless the expenditure extends the future economic benefit of the asset and meets the criteria or capitalization, in which case it would be capitalized.

**2.7 Construction in Progress**

The cost of a capital asset in progress includes direct construction or development costs included in preparing the asset for its intended use. This may include acquisition costs such as, but not limited to, architectural fees, design and engineering fees, legal fees, demolition costs and site preparation costs. Once a construction project in progress is substantially complete and available for use, it will be removed from construction in progress and reclassified to the appropriate capital asset account. Amortization will commence at that point.

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Chair: \_\_\_\_\_



CEO: \_\_\_\_\_

