Capitalization Policy

Knox County Housing Authority
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Article I. Purpose / Scope of the Policy

Section 1.01 The Knox County Housing Authority adopts the following capitalization policy for the purpose of determining, distinguishing and recording materials and non-expendable equipment and personal property purchased or acquired in connection with the development, management, and maintenance of public housing developments owned or operated by this Authority.

Article II. General Provisions

Section 2.01 If the initial cost of the piece of equipment, personal property and/or item for tenant units improvements (per unit) is One Thousand Five Hundred Dollars ($1,500.00) or more and the anticipated life or useful value of said equipment, property, or improvement is more than one (1) year, the same shall be capitalized and recorded as non-expendable equipment and charged as a capital expenditure.

Section 2.02 If the initial cost of the piece of equipment, personal property and/or item for tenant unit improvements (per unit) is less than One Thousand Five Hundred Dollars ($1,500.00) or its useful life is less than one (1) year regardless of cost, the same shall be treated and recorded as materials or inventory and charged to maintenance, administration, or tenant service expense.

Section 2.03 If the initial cost of any building, land, and/or any building, land, or site improvements are Five Thousand Dollars ($5,000.00) or more and the anticipated life or useful value of said building, land, and/or improvements to buildings, land, or site is more than one (1) year, the same shall be capitalized and recorded as non-expendable equipment and charged as a capital expenditure.

Section 2.04 If the initial cost of any building, land, and/or any building, land, or site improvements are less than Five Thousand Dollars ($5,000.00) or its useful life is less than one (1) year regardless of cost, the same shall be treated and recorded as materials or inventory and charged to maintenance, administration, or tenant service expense.

Section 2.05 The Executive Director, or the Executive Director's designee, is authorized and directed to determine whether each piece of equipment or other personal property that is acquired by the Housing Authority in connection with the development, management and maintenance of the properties owned or operated by the Housing Authority, shall be classified as material or non-expendable, as defined in the preceding sections. The Executive Director is further directed to ensure that the determination is documented in the appropriate records of the Housing Authority and retained for the information and guidance of its personnel and for audit purposes.

Article III. Schedule of Depreciation Lives

Section 3.01 The estimated useful life of a depreciable asset may differ from organization to organization and industry to industry. Useful lives in practice for broad general categories are normally as follows per IRS guidelines:

o Buildings	20 to 40 years
o Building Improvements	10 to 40 years
o Furniture and Fixtures	5 to 10 years
o Equipment	3 to 10 years
o Telephones	5 years
o Tools	5 years
o Appliances	7 years
o Furniture	10 years
o Computers	5 years
o Roofs	10 years
o Vehicles	5 years
o Leasehold improvements	15 years or the life of the lease
o Land Improvements	20 years

- Land and permanent improvements to land, are not depreciated.

The determination of the estimated life requires consideration of all the factors listed above.

Section 3.02 KCHA will use the ***straight-line depreciation method*** recommended by HUD in which the depreciation expense allocated to each year is determined by dividing the depreciable base by the estimated useful life of the asset in years.

$$\frac{\text{Acquisition cost- Estimated salvage value}}{\text{Estimated useful life}} = \textit{Depreciation Expense}$$