

Adjacent Ways Projects: Capitalize or Expense?

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Posted on February 10, 2026



Over the past year, we've been keeping an eye on common issues our school district clients are running into, and one question continues to come up: Should Adjacent Ways projects be capitalized and depreciated, or expensed as normal operating costs?

Like many accounting questions, the answer is straightforward once you know what to look for. Let's break it down.

What Are Adjacent Ways?

Adjacent Ways were established under A.R.S. § 15-995 and provide funds to Arizona school districts specifically for infrastructure projects that support safe access to school property. These projects can include construction, improvement, or maintenance of infrastructure **on or adjacent to school grounds** that helps students, staff, and visitors safely enter and exit school property.

These funds are generated through primary property taxes levied on real property within a district's boundaries. One key feature of Adjacent Ways funding is that it can be used for infrastructure located **off District property**. In many cases, that off-site property is owned by another public entity.

This unique characteristic is where much of the capitalization confusion begins.

Validation Requirements Add Another Layer

All Adjacent Ways projects must be submitted to the School Facilities Division (SFD) of the Arizona Department of Administration for validation. If a project exceeds \$50,000, validation is required **before** funds can be spent.

As part of the validation process, districts must submit:

- Detailed site maps
- Clear identification of on-site and off-site work
- Vendor proposals

These documents are critical—not just for compliance, but also for properly classifying the project in the District’s financial records.

Capitalize or Expense? Here’s the Framework

For school districts, capital asset decisions generally hinge on two factors: **cost** and **useful life**.

As a reminder, projects or assets costing \$5,000 or more and with a useful life greater than one year should be recorded as capital assets, assigned a useful life, and depreciated accordingly.

However, projects—or portions of projects—that extend onto property not owned by the District typically should **not** be capitalized. Those costs should instead be expensed like other operating costs, such as salaries, employee benefits, professional services, or supplies.

Ownership matters just as much as cost.

Why Property Identification Is So Important

District-owned property must be clearly identified on the site maps created for the SFD validation process. While the Business Office is sometimes included in that process, we’ve seen cases where staff responsible for capital assets never receive the maps or supporting documentation they need to make informed decisions.

Capital asset staff should review these maps closely and, if necessary, confirm property boundaries using interactive parcel maps available on the County Assessor’s website. With that information in hand, they can determine whether:

- The entire project should be capitalized
- Only a portion should be capitalized
- Or the project should be fully expensed

Addressing this early helps avoid costly clean-up later.

Start the Conversation Early

Capitalization decisions are much easier to make while projects are in progress, not months after they're completed. The more work that can be done during the fiscal year, the more accurate and complete the District's capital asset records will be.

Delays in finalizing capital asset schedules after year-end are a common reason financial statements aren't prepared, audited, or submitted on time. Clear communication between departments—and a solid understanding of Adjacent Ways requirements—can go a long way in keeping reporting on track and avoiding unnecessary stress during audit season.

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