



Yolo County Housing

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DATE: August 7, 2008
TO: YCH Board of Commissioners
FROM: Lisa A. Baker, Executive Director
PREPARED BY: Mark Stern, Finance Director
SUBJECT: **AMENDMENT TO YOLO COUNTY HOUSING'S CAPITAL ASSETS CAPITALIZATION POLICY**

RECOMMENDED ACTIONS:

That the Board of Commissioners:

1. Approve amending Yolo County Housing's Capital Assets Capitalization Policy.

BACKGROUND / DISCUSSION

Yolo County Housing's Capital Assets Capitalization Policy as approved June 26, 2007 contains language that requires modification to be consistent with the intent of the policy. The current policy states that equipment is capitalized if the cost "is either \$5,000 or a life of 3-7 years." The policy as approved is not consistent with the examples included. Staff proposes amending the policy to read "exceeds \$5,000 and has an expected life of at least 3 years." Staff also recommends approving the amendment retroactively to the board's approval of the existing policy on June 26, 2007.

FISCAL IMPACT

Adopting the recommended amendment should result in savings of staff time.

CONCLUSION

The attached amended capitalization policy is recommended for approval.

YOLO COUNTY HOUSING CAPITAL ASSETS CAPITALIZATION POLICY

The Yolo County Housing Capital Assets Capitalization Policy (Capitalization Policy) is derived from two major objectives:

1. Accounting and Financial Reporting: To accurately account for and report capital assets in financial reports issued to external reporting agencies, granting agencies and the public.
2. Safeguarding: The Yolo County Housing has a fiduciary responsibility to establish systems and procedures to protect its capital assets from loss or theft.

In meeting these two objectives, the YCH has established a Capitalization Policy, providing specific guidance to determine which capital assets are subject to separate accounting, reporting and safeguarding.

The Finance Department is responsible for, and has established, systems and procedures through which both objectives are met. These systems and procedures are used to identify, process, control, track and report YCH capital assets.

Accounting and Financial Reporting

The capitalization (accounting and financial reporting) threshold for non-infrastructure capital assets, including machinery and equipment, ~~is either \$5,000 OR a life of 3—7 years~~ cost exceeds \$5,000 and an expected life of at least 3 years. For infrastructure capital assets, including land, building, streets, sewer, landscape, etc., the threshold is \$50,000 including improvement, which extends the life of the infrastructure. All costs associated with the purchase or construction should be considered, including ancillary costs such as freight and transportation charges, site preparation expenditures, professional fees, engineering charges and legal claims directly attributable to asset acquisition.

Specific capitalization requirements are described below.

This capitalization threshold is applied to individual units of capital assets. For example, twenty desks purchased through a single purchase order, each costing \$1,000, will not qualify for capitalization even though the total (\$20,000) exceeds the threshold of \$5,000.

For purposes of capitalization, the threshold will generally not be applied to components of fixed assets. For example, a keyboard, monitor and central processing unit purchased, as components of a computer system will not be

evaluated individually against the capitalization threshold. The entire computer system will be treated as a single fixed asset.

Repairs to existing capital assets will generally not be subject to capitalization unless it extends the useful life of the asset. In this case, it represents an improvement and is subject to the requirements described below.

Improvements to existing capital assets will be presumed (by definition) to extend the useful life of the related fixed asset and, therefore, will be subject to capitalization only if the cost of the improvement meets the \$5,000 threshold for non-infrastructure assets and \$50,000 for infrastructure assets. In theory, an improvement to a capital asset that had an original cost of less than \$5,000, but now exceeds the threshold as a result of the improvement, should be combined as a single asset at the total cost (original cost plus the cost of the improvement) and capitalized.

Capital projects will be capitalized as "construction in progress" until completed. Costs to be capitalized include direct costs, such as labor and materials, as well as ancillary costs and any construction period interest costs as required by authoritative pronouncements from GASB.

Certain exceptions may be considered on a case-by-case basis. Following are some examples:

Any asset less than \$5,000 may be capitalized as requested by a department. This may include certain machinery and equipment that, due to their portability, value outside of the office, or character, are susceptible to theft or loss. It may also include any asset that has been requested by a department to be controlled in order to satisfy an internal (operational) or external requirement. For example, YCH may wish to track all computer hardware to establish replacement schedules and upgrade requirements for both hardware and system software.

Any asset required to be controlled and separately reported pursuant to grant conditions or other externally imposed requirement. For example, a grant program that has funded the acquisition of a capital asset may impose a requirement that the fixed asset be tracked and identified as a grant-funded asset or certain grantors may prohibit capitalization levels in excess of \$5,000 for certain classes of assets acquired with grant funds.

Safeguarding

Departments are ultimately responsible for safeguarding their departments' capital assets from theft or loss. Finance is responsible for establishing and maintaining systems and procedures that enable departments and program managers to properly safeguard their assets.

Revised: YCH 8/2008