



**Berkeley Housing Authority**

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*Office of the Executive Director*

**Item 7A**

**NEW BUSINESS**

May 15, 2025

To: Honorable Chairperson and  
Members of the Berkeley Housing Authority

From: Jesy Yturralde, Finance Manager

Subject: BHA Capitalization Policy Amendment

**RECOMMENDATION**

Adopt a Resolution approving amendment of the Capitalization Policy for the Berkeley Housing Authority.

**BACKGROUND**

As a separate legal entity, the Housing Authority is required to have various policies and procedures to govern its operation. In October 2008, the BHA Board of Commissioners approved the first BHA Capitalization Policy in compliance with applicable HUD standards and Generally Accepted Accounting Principles applicable at that time, and was subsequently revised and updated on February 13, 2014.

**STATUS**

The purpose of this recommendation is to comply with the most current HUD guideline on Accounting for General Property, Plant and Equipment (PP&E) of the HUD Accounting Policies Handbook (1980.1), including revision of the threshold amounts and useful life of the PP&E categories.

RESOLUTION NO. 25-10

ADOPTION OF A CAPITALIZATION POLICY FOR THE BERKELEY HOUSING AUTHORITY

WHEREAS, on July 1, 2007 the Authority became an entity separate from the City of Berkeley; and

WHEREAS, the Berkeley Housing Authority is required to have a Capitalization Policy: and

WHEREAS, the Berkeley Housing Authority adopted the BHA Capitalization Policy on October 20, 2008 and amended on February 13, 2014; and

WHEREAS, HUD since then has updated the capitalization thresholds and useful life of all Property, Plant and Equipment (PP&E); and

NOW, THEREFORE BE IT RESOLVED that the Board of Commissioners of the Berkeley Housing Authority hereby approves the attached BHA Capitalization Policy.

The foregoing Resolution was adopted by the Board of Commissioners of the Berkeley Housing Authority on May 15, 2025 by the following vote:

Ayes:

Noes:

Absent:

Attest: \_\_\_\_\_  
James E. Williams, Secretary

## BERKELEY HOUSING AUTHORITY CAPITALIZATION POLICY

Plant, Property & Equipment or Fixed Assets shall be reported in the balance sheet, the statement of net cost, and disclosed in the footnotes in accordance with the requirements outlined in OMB Circular A-136. The acquisition cost of general PP&E shall be recognized as an asset - based upon Federal accounting standards and the capitalization thresholds. Subsequently, that acquisition cost shall be periodically charged to expense through depreciation. Depreciation is the systemic and rational allocation of the acquisition cost of an asset, less its salvage or residual value. The depreciation expense shall be accumulated in a contra asset account – accumulated depreciation.

Segregation of duties precludes errors or attempts at fraud or embezzlement from going undetected. Internal controls generally require a four-way separation of the contracting, receiving, voucher certification, and disbursing functions. To the greatest extent possible, relevant duties associated with PP&E that should be assigned to different personnel include:

- contracting (obligating the Government);
- authorizing, approving, and recording transactions;
- issuing or receiving assets;
- completion of physical inventories;
- maintaining property records; and
- disposition of assets.

General PP&E consists of furniture, fixtures, equipment, and data processing software used in providing goods and services. General PP&E also includes assets acquired through capital leases and leasehold improvements. As defined in SFFAS 6, all PP&E must meet the following criteria in order for costs to be capitalized:

- they have estimated useful lives of two years or more;
- they are not intended for sale in the ordinary course of operations; and
- they have been acquired or constructed to be used or being available for use by the Authority.

The following sections outline the accounting requirements for the specific types of General PP&E:

1. Internal Use Software. SFFAS 10 identifies accounting requirements for software designed for internal use, which consists of:
  - commercial off-the-shelf (COTS), and
  - developed software.

Internal use software must be recorded as PP&E in the Department's general ledger and financial statements if it meets the General PP&E criteria identified above.

- 1.a. Commercial-off-the-Shelf (COTS) Software: COTS software refers to software that is purchased from a vendor and is ready for use with little or no changes. For COTS software, capitalized costs should include the amounts paid to the vendor for the software. Material internal costs incurred by the Authority to implement the COTS software and otherwise make it ready for use should also be capitalized.

Costs incurred after final acceptance testing that has been successfully completed should be expensed. Where the software is to be installed at multiple sites, capitalization should cease at each site after testing is complete at that site.

- 1.b. Developed Software: Developed software consists of:

- internally developed software, and
- contractor developed software.

Internally developed software refers to software that employees of the Authority are actively developing, including new software, and existing or purchased software that is being modified with or without a contractor's assistance. For internally developed software, capitalized cost should include the full cost (direct and indirect cost) incurred during the software development stage. Such cost should be limited to the cost incurred after management authorizes and commits to a computer software project and the software will be used to perform the intended function with an estimated service life of two years or more. Such costs include those for new software (e.g., salaries of programmers, systems analysts, project managers, and administrative personnel; associated employee benefits; outside consultants' fees; rent; and supplies) and documentation manuals. Further guidance regarding full costing is found in SFFAS 4 and SFFAS 10.

Contractor developed software refers to software that the Authority is paying a contractor to design, program, install, and implement. This includes new software and the modification of existing purchased software. These costs should be capitalized. Material internal costs incurred by the Authority to implement contractor-developed software and otherwise make it ready for use should also be capitalized.

<b>PP&amp;E Category</b>	<b>Capitalization Threshold</b>	<b>Useful Life</b>
Internal Use Software	\$5,000	3 Years

2. Equipment. BHA equipment consists of appliances, office machinery, computers, servers, telephone systems, and furniture and fixtures.

<b>PP&amp;E Category</b>	<b>Capitalization Threshold</b>	<b>Useful Life</b>
Equipment (including shipping)	\$5,000 or higher individually	3 Years

3. Capital Leases. Capital leases are leases that transfer substantially all the benefits and risks of ownership to the Authority. The cost of property under a capital lease must be equal to the amount recognized as a liability for the lease at its inception.

In accordance with SFFAS 6, the criteria for a capital lease is met when a lease meets any one of the following four criteria at lease inception:

- the ownership of the asset is transferred from the lessor to the lessee by the end of the lease period;
- the lessee can buy the asset from the lessor at the end of the lease term for a below-market price;
- the period of the lease encompasses at least 75% of the useful life of the asset (and the lease is non-cancellable during that time); and
- the present value of the minimum lease payments required under the lease is at least 90% of the fair value of the asset at the inception of the lease.

<b>PP&amp;E Category</b>	<b>Capitalization Threshold</b>	<b>Useful Life</b>
Capital Leases	\$500,000	3 Years

4. Leasehold Improvements. Leasehold improvements consist of additions, alterations, remodeling, renovations, or other changes to a leased property that either: (1) extend the useful life of the existing property, or (2) enlarge or improve its capacity, and are paid for (financed) by the lessee. Leasehold improvements that are placed in service at or after the beginning of the lease term should be amortized over the useful life of 5 years (the normal operating life in terms of utility to the owner) of the leasehold improvement, but no longer than the expected lease term.

<b>PP&amp;E Category</b>	<b>Capitalization Threshold</b>	<b>Useful Life</b>
Leasehold Improvements	\$100,000	3 Years

5. Operating Leases. In accordance with SFFAS 6, BHA does not capitalize Operating Leases. BHA will disclose, in the footnotes to its consolidated financial statements, the following regarding intragovernmental lease activities:

- a general description of significant intragovernmental leasing arrangements, including general lease terms with any applicable specific intragovernmental requirements; and
- annual lease expense in total and by major leased PP&E category.

6. Bulk Purchases. In accordance with SFFAS 6, BHA will capitalize Bulk Purchases of like items that meet the thresholds below.

<b>PP&amp;E Category</b>	<b>Capitalization Threshold</b>	<b>Useful Life</b>
Bulk Purchases	Lot of Like Items in Total Costing \$50,000 (Individually \$5,000 or more)	3 Years

**Record Management.** Records retention plays an integral role in the management of PP&E. Well-maintained records serve as supporting documentation for all actions affecting the lifecycle of an asset (that is, acquisition, transfer, disposition, and other significant events).

**Valuation.** In accordance with SFFAS 6 & 10, General PP&E shall be recorded at its historical cost (acquisition cost), with the general exceptions of transfers and excess property received. Examples of cost accounted for during the acquisition of General PP&E may include:

- amounts paid to vendors;
- transportation charges to the point of initial use;
- handling and storage costs;
- labor and other direct or indirect production costs (for assets produced or constructed);
- engineering, architectural, and other outside services for designs, plans, specifications, and surveys;
- acquisition and preparation costs of buildings and other facilities;
- an appropriate share of the cost of the equipment and facilities used in construction work;
- fixed equipment and related installation costs required for activities in a building or facility;
- direct costs of inspection, supervision, and administration of construction contracts and construction work;
- legal and recording fees and damage claims; and
- fair value of facilities and equipment donated to the government; and material amounts of interest costs paid.

**Method of Depreciation.** Depreciation is calculated using the straight-line method over the useful life of the asset.