Southern Nevada Regional Housing Authority

CAPITALIZATION POLICY

Revised July 2017

Objective:

The Southern Nevada Regional Housing Authority (SNRHA) adopts the following capitalization policy for the purpose of determining, distinguishing and recording materials, non-expendable equipment and/or personal property purchased or acquired in connection with the development, management, and maintenance of public housing developments owned or operated by the Authority. This policy will:

1. Establish the capitalization policy.
2. Identify the typical types of assets owned by the SNRHA and the costs to include in the capitalization of the related asset.
3. Provide descriptions of real and personal property.
4. Include guidance for the depreciation method and useful life of the different asset classes.
5. The frequency of conducting an inventory of equipment

Capitalization Policy

All **land** (including ancillary cost) shall be capitalized.

Building improvements and **infrastructure** in excess of $5,000 will be capitalized and depreciated over the life of the asset using the straight line depreciation method. The estimated useful live is between 30 to 40 years

Construction in Progress will be capitalized as costs are incurred. The related depreciation will not begin until the related activity is substantially complete, accepted, and or placed into service.

Furniture, fixtures (not attached to the building or the improvement), **computer software**, **vehicles**, and **equipment** with a unit cost in excess of $5,000 shall be categorized as non-dwelling equipment and depreciated over the life of the asset using the straight line depreciation method. The estimated useful live is between 2 to 10 years.

Includable Costs for Capitalized Assets

Purchased **Assets -** Use historical costs including all nonrefundable purchase taxes (e.g., freight, shipping), and all appropriate ancillary costs less any trade discounts or rebates. If the historical cost is not practicably determinable, use the estimated cost.

Purchased **land -** The capitalized value is to include the purchase price plus costs such as legal fees, filling, and excavation costs incurred to put the land in condition for its intended use.

Building costs include both acquisition and capital improvement costs, including, net construction period interest.

Capital improvements include structures (e.g., office buildings, dwelling and non-dwelling buildings, and other facilities) and all other property permanently attached to, or an integral part of, the structure (e.g., loading docks, heating and air-conditioning equipment and generators).

Furniture, fixtures, software, or **other equipment** not an integral part of a building are not considered capital improvements and should be classified as non-dwelling equipment. The cost for this asset type reflects the actual or estimated cost of the asset.

Include the cost of **extended maintenance/warranty contracts** in the asset valuation if the contract is purchased at the same time (or soon thereafter) as the capital asset. Depreciate these contracts over the useful life of the asset. Do not capitalize payments for contracts not purchased at the same time as the capital asset.

Ancillary Costs - Typically, ancillary costs should be included in the cost of a capital asset. However, minor ancillary costs, not measurable at the time a capital asset is recorded are not required to be capitalized but may be capitalized if the information becomes readily available. Ancillary costs include such items as:

For Land:
Legal and title fees;
Professional fees of engineers, attorneys, appraisers, financial advisors, etc;
Surveying fees;
Appraisal and negotiation fees;
Damage payments;
Site preparation costs; and
Costs related to demolition of unwanted structures.

For buildings and improvements:
Professional fees of architects, engineers, attorneys, appraisers, financial advisors, etc;
Damage payments
Costs of fixtures permanently attached to a building or structure;
Insurance premiums, interest, and related costs incurred during construction; and
Any other costs necessary to place a building or structure into its intended location and condition for use.

For furniture, fixtures, equipment, software and other assets:
Transportation charges;
Sales tax;
Installation costs;
Extended maintenance/warranty contracts
Any other normal or necessary costs required to place the asset in its intended location and condition for use.

Donated Assets - Use the fair market value at the time of acquisition plus all appropriate ancillary costs. If the fair market value is not practicably determinable due to lack of sufficient records, use the estimated cost. If land is acquired by gift, the capitalized value is to reflect its appraised or fair market value at the time of acquisition.

Descriptions of Real and Personal Property

Property owned by SNRHA can be divided into two types; (real property and personal property).

For accounting purposes real property consists of: (1) the housing site, the land and any site improvements such as streets, roads, storm drains, sidewalks and curbs, steps, utilities, retaining walls, landscaping, other infrastructure, etc.; and (2) the dwelling structures, non-dwelling structures, and any attached equipment such as boilers, and duct work.

Personal property consists of all materials, supplies, equipment and fixtures not attached to the land or buildings, and not installed or connected to the land or the buildings.

The term Fixed Asset is also used to describe certain types of personal property owned by SNRHA. (Property covered by this term includes items that can be moved around, see below.)

Examples of personal property owned by the Authority are:

Ranges
Screens
Shades
Vehicles
Community room equipment (such as a projection TV)
Office furniture
Washing Machines and Dryers

Personal Property Categories

Within the personal property category the division of property falls into four areas:

1. Materials and supplies -- consist of items that:

- can be used only once (e.g. paint, caulk);
- are spent in use (e.g. cleaning supplies, brooms, paint

brushes, extermination supplies, a light bulb, or furnace filter, a yellow legal pad); or

* lose their identity or become a part of other property when put into use (e.g. nails, lumber, dry wall, repair parts, floor tiles, switches and switch plates, receptacles, furnace controls, pipe fittings, washers, screws, valves, etc.).

Accountability for materials and supplies is obtained through the inventory control system.

In addition to materials and supplies, small tools and other items with a useful life of one year or less are also monitored through the inventory system. Tools and equipment that fall in this category are also covered by inventory controls.

The concept of useful life is a key part of the definition for the next items on the personal property list--expendable and nonexpendable equipment.

2. Expendable Equipment -- may be defined as:

- any item of equipment which may have a useful life of more than one year;
- with a cost that is below an established dollar amount ($5,000 for SNRHA); and,
- when purchased with operating funds, is not treated as a capital expenditure.

3. Nonexpendable equipment is defined as:

- an item of equipment having, a useful life of more than one year, and,
- whose cost exceeds an established threshold amount ($5,000 for SNRHA); and
- is treated as a capital expenditure with financial controls maintained (including applicable depreciation) over the life of the item.

Equipment treated as a capital expenditure:

- retains its identity when put into use (truck, car, riding mower);
- is subject to repeated rather than one-time use;
- has a relatively long service life (more than one year); and
- per SNRHA policy has a cost of $5,000 or more.

4.   Capitalized Repairs are defined as:

- Repairs whose cost exceeds $5,000 per occurrence, and,
- adds to the useful life of the Building or item repaired, and,

- is treated as a capital expenditure with financial controls (including applicable depreciation) over the life of the item.

Repairs costing less than $5,000 may be capitalized if the determination is made that the repair significantly increases the useful life of the asset or if the repair prevents the premature obsolescence of the asset. The capitalization of repair costing less than $5,000 will be at the discretion of responsible SNRHA staff.

The Southern Nevada Regional Housing Authority is required to be in compliance with the Department of Housing and Urban Development by conducting an inventory of equipment every two years.