

**VALLEY CLEAN ENERGY ALLIANCE****Staff Report – Item 10**

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**TO:** Board of Directors

**FROM:** Edward Burnham, Chief Financial Officer / Treasurer

**SUBJECT:** Approve and Adopt Capitalization Policy

**DATE:** September 11, 2025

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**RECOMMENDATIONS**

Approve the attached resolution adopting a capitalization policy for VCE.

**BACKGROUND & ANALYSIS**

The purpose of this report is to recommend the adoption of a formal Capitalization Policy for Valley Clean Energy (VCE). A capital asset is defined as a tangible or intangible item with a useful life of more than one year and an acquisition cost above a specified threshold. As a public agency responsible for managing significant assets, a formal policy is important for transparent and consistent financial reporting in accordance with governmental accounting standards. This policy will establish a clear framework for defining, tracking, and depreciating capital assets, enhancing VCE's financial strength.

**Rationale for Adopting a Capitalization Policy**

A formal capitalization policy is a best practice for public agencies and provides multiple benefits for VCE:

- Improved financial reporting: The policy will clarify the distinction between expenses and capital assets, ensuring financial statements accurately reflect the organization's net position and asset base.
- Adherence to governmental accounting standards: By setting clear capitalization thresholds and methods, VCE will comply with authoritative accounting pronouncements and best practices recommended by organizations such as the Government Finance Officers Association (GFOA).
- Enhanced fiscal management and stability: The policy supports VCE's strategic objectives for fiscal efficiency and long-term financial health, including maintaining adequate cash reserves and enabling rate stability.
- Record-keeping efficiency: It will streamline the process of recording and tracking long-lived assets, making it easier for staff to manage assets throughout their useful lives and for auditors to verify financial records.

**Key Components of the Proposed Policy**

The attached policy includes the following standard elements for a government agency:

- Capital Asset Definition: A capital asset is defined as a tangible or intangible item with a

useful life of more than one year and an acquisition cost above a specified threshold.

- **Capitalization Thresholds:** The policy sets a minimum dollar amount, such as the GFOA-recommended \$5,000, for individual assets or asset classes to be capitalized rather than expensed.
- **Useful Life and Depreciation:** It outlines how the historical cost of assets will be depreciated over their estimated useful lives to reflect the consumption of the asset's service value.
- **Record-Keeping and Procedures:** The policy details the process for tracking capital assets.

### **Fiscal Impact**

Adopting a formal capitalization policy is not expected to create a significant fiscal impact in terms of direct costs. Any related costs, such as minor staff time for implementation or potential software enhancements for asset tracking, are well within the existing operational budget. In the long run, the policy is expected to lead to fiscal efficiencies through better asset management and more accurate financial forecasting, which supports VCE's overall financial goals.

### **CONCLUSION**

Staff recommends that the Board adopt the proposed Capitalization Policy Draft as presented in the attachment to this staff report. Adoption will formalize VCE's accounting practices, ensure compliance with governmental accounting standards, and contribute to the long-term fiscal health and transparency of the organization.

### **Attachments**

1. Capitalization Policy Draft
2. Resolution 2025-XXX adopting Capitalization Policy

# VALLEY CLEAN ENERGY

## DRAFT CAPITALIZATION POLICY

### I. **PURPOSE**

This accounting policy establishes the method of maintaining fixed asset information and the minimum cost (capitalization amount) that shall be used to determine the fixed assets that are to be recorded in Valley Clean Energy's (VCE) annual financial statements.

### II. **DEFINITIONS**

Fixed Asset - A Fixed Asset is defined as a unit of property that: (1) has an economic useful life that extends beyond 12 months; and (2) was acquired or produced for a cost of \$5,000 or more.

### III. **POLICY**

VCE Fixed Assets must be capitalized and depreciated for financial statement (or bookkeeping) purposes. VCE will maintain a fixed asset registry with the following information:

#### **Maintenance of Fixed Asset Registry**

- Description of the equipment
- Serial number or other identification number
- Asset category
- Acquisition date
- Cost
- The asset's estimated useful life.

#### **Capitalization thresholds**

VCE establishes **\$5,000** as the threshold amount for minimum capitalization. Any items costing below this amount should be expensed in VCE's financial statements.

#### **Useful Life**

The useful life of an asset is that period during which the asset provides benefits. Estimates of useful life consider factors such as physical wear and tear and technological changes that bear on the economic usefulness of the asset. The following chart summarizes the useful life for each type of currently held property and equipment:

Asset Category	Useful Life
Building Improvement	20-30
Furniture & Equipment	5-15
IT Hardware/Software	3-7

**VALLEY CLEAN ENERGY  
DRAFT CAPITALIZATION POLICY**

**Depreciation Rates**

All assets will be depreciated down to a zero residual value on a straight-line basis, over the useful life of the asset.

**Depreciation**

VCE will account for depreciation expense on a basis consistent with generally accepted accounting principles and effective tax regulations, as appropriate on all Capitalized Assets that have a value of more than **\$5,000** and a useful life of more than one year.

A change in the recovery period of any class of Capitalized Asset will not affect the recovery period assumed for assets acquired prior to that change or prior to the date of this policy.

The depreciation method used will be straight-line basis using a one-month lag.

Depreciation expense with respect to Capitalized Assets acquired at any time during one month will begin to be recognized in the following month.

**VALLEY CLEAN ENERGY ALLIANCE**

**RESOLUTION NO. 2025-XXX**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF VALLEY CLEAN ENERGY ALLIANCE  
ADOPTING A CAPITALIZATION POLICY**

**WHEREAS**, Valley Clean Energy Alliance (“VCE”) was formed as a community choice aggregation agency (“CCA”) on November 16, 2016, Under the Joint Exercise of Power Act, California Government Code sections 6500 et seq., among the County of Yolo, and the Cities of Davis and Woodland, to reduce greenhouse gas emissions, provide electricity, carry out programs to reduce energy consumption, develop local jobs in renewable energy, and promote energy security and rate stability in all of the member jurisdictions. The City of Winters, located in Yolo County, was added as a member of VCE and a party to the JPA in December of 2019; and,

**WHEREAS**, to achieve its strategic goals, VCE must adopt a Capitalization Policy to establish a clear framework for defining, tracking, and depreciating capital assets, enhancing VCE's financial strength; and,

**WHEREAS**, VCE will comply with authoritative accounting pronouncements and best practices recommended by organizations such as the Government Finance Officers Association (GFOA); and,

**NOW, THEREFORE**, the Board of Directors of the Valley Clean Energy Alliance hereby adopts a capitalization policy (Exhibit A).

**PASSED, APPROVED AND ADOPTED**, at a regular meeting of the Valley Clean Energy Alliance, held on the \_\_\_\_\_ day of \_\_\_\_\_ 2025, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

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Bapu Vaitla, VCE Chair

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Alisa M. Lembke, VCE Board Secretary

Attachment: Exhibit A – Capitalization Policy

**Exhibit A**

**Capitalization Policy**