



air pollution control district
SANTA BARBARA COUNTY

Agenda Item: E-10
Agenda Date: October 15, 2026
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Estimated Time: N/A
Continued Item: No

Board Agenda Item

TO: Air Pollution Control District Board

FROM: Aeron Arlin Genet, Air Pollution Control Officer 

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SUBJECT: Adoption of Revised Capital Asset Capitalization Policy

RECOMMENDATION:

Adopt the revised Capital Asset Capitalization Policy as follows:

1. Increase the District's capitalization threshold for capital assets from \$5,000 to \$10,000, applied uniformly across all capital asset classes; and
2. Adopt the revised capitalization threshold language for inclusion in the District's Internal Control Narrative (Attachment A), effective retroactively to July 1, 2026, the start of Fiscal Year (FY) 2026-27.

DISCUSSION:

The District's Capitalization Policy is documented within the District's Internal Control Narrative, which is maintained by fiscal staff and provided to the District's independent auditors as part of the annual financial audit. The Internal Control Narrative currently establishes a capitalization threshold of \$5,000, meaning that individual capital asset acquisitions below this amount are expensed in the year of purchase rather than capitalized and depreciated over their useful life.

Staff recommends increasing this threshold to \$10,000, applied uniformly across all capital asset classes. This change would reduce the administrative burden of tracking and depreciating lower-value assets while continuing to provide appropriate financial reporting and internal control over the District's more significant capital investments. A \$10,000 threshold also aligns the District's policy with the capitalization threshold commonly applied under the federal Uniform Guidance (2 CFR Part 200), which is relevant given the District's receipt of federal grant funding.

Staff consulted with the District's independent auditors regarding this proposed change. The auditors confirmed that Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) standards do not prohibit an increase to \$10,000, and that governments may establish their own capitalization thresholds provided the policy is reasonable,

applied consistently on a go-forward basis across all capital asset classes and disclosed in the accounting policies section of the District's financial statements. The auditors further noted that, in aligning with the federal Uniform Guidance, a \$10,000 threshold is a conservative and defensible approach, particularly for an entity receiving federal funds.

Staff recommends that the revised threshold be applied retroactively to July 1, 2026, the start of Fiscal Year 2026-27, so that the change is reflected consistently for the entire fiscal year. The revised language (Attachment A) will be incorporated into the District's Internal Control Narrative, which is updated annually and provided to the District's independent auditors as part of the annual financial audit. Additionally, the change will be disclosed accordingly in the notes to the District's future financial statements.

ATTACHMENT:

- A. Capitalization Policy Language – Internal Control Narrative (Redline).

ATTACHMENT A

Capitalization Policy Language – Internal Control Narrative (Redline)

October 15, 2026

Santa Barbara County Air Pollution Control District
Board of Directors

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Santa Barbara, California 93110

1011 West McCoy Lane
Santa Maria, California 93455

ATTACHMENT A
Revised Capitalization Policy
Internal Control Narrative – Section III

III. Capitalization Policy

1. Purpose

This accounting policy establishes the minimum cost (capitalization amount) that shall be used to determine the capital assets that are to be recorded in Santa Barbara County Air Pollution Control District's (the District) annual financial statements (or books).

2. Capital Asset Definition

A "Capital 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 \$10,000 or more. Capital Assets must be capitalized and depreciated for financial statement (or bookkeeping) purposes.

3. Capitalization Thresholds

The District establishes \$10,000 as the threshold amount for minimum capitalization, with the exception of leasehold improvements. Any items costing below this amount should be expensed in the District's financial statements (or books).

In regard to leasehold improvements the District establishes a \$25,000 threshold and must be capitalized and amortized for financial statement purposes.

4. Capitalization Method and Procedure

All Capital Assets are recorded at historical cost as of the date acquired.

Tangible assets costing below the aforementioned threshold amount are recorded as an expense for the District's annual financial statements. Alternatively, assets with an economic useful life of 12 months or less are required to be expensed for financial statement purposes, regardless of the acquisition or production cost.

5. Recordkeeping

Invoice substantiating an acquisition cost of each unit of property shall be retained in accordance with the terms of our record retention policy.

Effective retroactively to July 1, 2026 (start of Fiscal Year 2026-27), pending Board adoption.