

RESOLUTION ESTABLISHING CAPITALIZATION THRESHOLD FOR CAPITAL ASSETS

WHEREAS, the Government Finance Officers Association recommends an individual item guideline of at least \$5,000 as a capitalization threshold for capital assets; and

WHEREAS, the amount previously established by the City of Rapid City is \$500; and

WHEREAS, the provisions of new reporting standards promulgated by GASB 34 have entirely revised standards for reporting of general capital assets;

NOW THEREFORE BE IT RESOLVED that a minimum of \$5,000 for any individual item be established as a capitalization threshold for capital assets other than infrastructure assets;

BE IT FURTHER RESOLVED that a minimum of \$15,000 for any individual project be established as a capitalization threshold for infrastructure assets.

BE IT FURTHER RESOLVED that departments will continue to maintain adequate control over noncapitalized capital-type assets.

Dated this 17th day of December, 2001.

CITY COUNCIL

Mayor

ATTEST:

Finance Officer

GFOA Recommended Practice

Establishing Appropriate Capitalization Thresholds for Tangible Capital Assets

Background. The term “capital assets” is used to describe assets that are used in operations and that have initial lives extending beyond a single reporting period. Capital assets may be either intangible (e.g., easements, water rights) or tangible (e.g., land, buildings, building improvements, vehicles, machinery, equipment and infrastructure). It is incumbent upon public-sector managers to maintain adequate control over all of a government’s resources, including capital assets, to minimize the risk of loss or misuse.

Not all tangible capital-type items with useful lives extending beyond a single reporting period are required to be reported in a government’s statement of position. Items with extremely short useful lives (e.g., less than 2 years) or of small monetary value are properly reported as an “expense” or “expenditure” in the period in which they are acquired.

When outlays for tangible capital-type items are, in fact, reported on the statement of position, they are said to be capitalized. The monetary criterion used to determine whether a given capital asset should be reported on the balance sheet is known as the “capitalization threshold.” A government may establish a single capitalization threshold for all of its tangible capital assets, or it may establish different capitalization thresholds for different classes of tangible capital assets.

Capitalization is, of its nature, primarily a financial reporting issue. That is, a government’s principal concern in establishing specific capitalization thresholds ought to be the anticipated information needs of the users of the government’s external financial reports. While it is essential to maintain control over all of a government’s tangible capital-type items, there exist much more efficient means than capitalization for accomplishing this objective in the case of a government’s smaller tangible capital-type items. Furthermore, practice has demonstrated that capital asset management systems that attempt to incorporate data on numerous smaller tangible capital type items are often costly and difficult to maintain and operate.

Recommendation. The Government Finance Officers Association (GFOA) recommends that state and local governments consider the following guidelines in establishing capitalization thresholds for their tangible capital assets:

1. Tangible capital-type items should only be capitalized only if they have an estimated useful life of at least two years following the date of acquisition.
2. Capitalization thresholds are best applied to individual items rather than to groups of similar items (e.g., desks and tables).

3. Infrastructure assets should be treated separately from other capital assets for purposes of establishing capitalization thresholds. As a general rule, capitalization thresholds for non-infrastructure items should be designed to encompass approximately 80 percent of a government's total non-infrastructure tangible capital-type items.
4. In no case should a government establish a capitalization threshold of less than \$5,000 for any individual item.
5. In establishing capitalization thresholds, governments that are recipients of federal awards should be aware of federal requirements that prevent the use of capitalization thresholds in excess of certain specified maximum amounts (i.e., currently \$5,000) for purposes of federal reimbursement.
6. Governments should exercise control over their noncapitalized tangible capital-type items by establishing and maintaining adequate control procedures at the departmental level.