



# GRAND RAPIDS PUBLIC UTILITIES COMMISSION AGENDA ITEM

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**AGENDA DATE:** January 11, 2022

**AGENDA ITEM:** Consider a motion to approve an increase in the fixed asset capitalization amount from \$1,000 to \$5,000 effective January 1, 2022.

**PREPARED BY:** Jean Lane, Business Services Manager

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## **BACKGROUND:**

The Grand Rapids Public Utilities has used a \$1,000 threshold to capitalize a fixed (capital) asset for many years.

Capital assets are defined as land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single financial reporting period.

As a practical application of the materiality principle, not all tangible capital-type items with useful lives extending beyond a single reporting period are required to be reported as a capital asset. Items of small monetary value are properly reported as an “expense” in the period in which they are acquired.

The monetary criterion used to determine whether a given asset should be reported as a capital asset is known as the capitalization threshold. Over time inflation takes effect and governmental units must determine the financial cut-off that designates a capital asset.

The Government Finance Officer Association (GFOA) best practices for capitalization thresholds for capital assets were part of my review and recommendation process.

After conversations internally with the management team and externally with the independent auditors I recommend the Grand Rapids Public Utilities threshold to capitalize a fixed asset is increased from \$1,000 to \$5,000 starting January 1, 2022.

## **RECOMMENDATION:**

Consider a motion to approve an increase in the Grand Rapids Public Utilities fixed asset capitalization threshold from \$1,000 to \$5,000 starting January 1, 2022.