

Capital Asset Policy

New Kent County, Virginia

Effective: July 14, 2014



Definition of a Capital Asset

Capital assets are tangible or intangible assets that are obtained for use in County operations. Capital assets can be purchased, constructed or donated. The following authoritative definition for state and local governments is provided by the Governmental Accounting Standards Board (GASB):

*Statement No. 34 - The term **capital assets** includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.*

New Kent County only capitalizes assets that have a value greater than or equal to \$5,000 and an estimated useful life greater than one year. Capitalization occurs at the time of acquisition.

Asset Categories

New Kent County maintains the following asset categories:

A. Land, Easements & Right of Ways

Land is real property that provides a foundation for structures or produces crops, trees and other forms of shrubbery. Land has an indefinite useful life. Therefore, land is not depreciated. Capitalizable costs for land include purchase price, legal and title fees, easements, and expenses incurred to prepare the land for its intended use.

B. Land Improvements

Land Improvements are assets, other than buildings, that are built, installed or established to enhance the quality or to facilitate the use of land for a particular purpose. Examples include fences, retaining walls, parking lots and most landscaping.

C. Buildings

Buildings are permanent structures which include warehouses, plant facilities, and office buildings. Capitalizable costs for buildings include purchase price, legal fees, reconditioning, materials, labor, professional fees, etc. The County capitalizes all components of a building as one asset and depreciates them over the useful life of the building. Replacement of components of the building, such as a replacement of a roof, is expensed when incurred.

D. Construction in Progress

Costs incurred to construct or develop an asset before it is ready to be placed into service are considered to be Construction in Progress (CIP). These costs can include project costs, costs for plans/blueprints, building permits, professional fees (architect, engineer, management fees for design and supervision, legal), temporary buildings used during construction, permanently attached fixtures or machinery that cannot be removed without impairing the use of the building, additions to buildings including expansions, extensions, or enlargements.

Furniture, fixtures, and equipment that are associated with the project are capitalized separately and are not included in the construction costs of the project.

E. Infrastructure

Infrastructure is assets that are long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples are roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems.

F. Machinery & Equipment

Machinery and Equipment are generally movable tangible assets that are used for County operations. Purchase price, transportation, shipping and installation are all capitalizable costs of Machinery and Equipment. Lump-sum purchases of a group of smaller items that are below the individual capitalization threshold are not capitalized.

G. Intangible Assets

An Intangible Asset is an asset that lacks physical substance, is nonfinancial in nature and has a useful life greater than one year. In order for an intangible asset to be reported in the financial statements, the asset must be identifiable. An intangible asset is identifiable if it meets either of the following condition:

- The asset is separable (capable of being separated or divided from the county and sold, transferred, licensed, rented or exchanged)
- The asset arises from contractual or legal rights.

Examples of intangible assets include easements, water/timber rights, patents, trademarks and computer software.

H. Licensed Vehicles

Vehicles include cars, trucks, ambulances, etc. used by the County in its normal operation. Capitalizable costs include net purchase price, transportation, costs incurred to distinguish or ready the vehicle for its intended use, etc.

Depreciation

The purpose of depreciation is to allocate the cost of an asset over the assets' useful life, rather than expensing the cost in the year the asset was purchased. Three factors are required to determine depreciation:

- **Historical Cost** -The purchase price or construction cost of the asset. Any other additional costs incurred in order to get the asset ready for its intended use and in its intended location would also be a part of the historical cost.
- **Acquisition Date** -The date that New Kent County became the owner and placed the asset in service.
- **Useful Life** - The estimated number of years that the asset will be of benefit to the County.

Capital Asset Threshold

Assets that are in the custody of the County and have a value greater than \$5,000 should be capitalized.

Capitalizable Costs

Capital assets are recorded at historical costs. Historical costs include:

- Purchase price
- Costs needed to place the asset at its intended location
 - Transportation, shipping, etc.
- Costs needed to place the asset in its intended condition for use
 - Installation, site preparation, etc.

All costs must be directly recognizable to a specific asset in order to be capitalized.

Assets donated by third parties are recorded at fair market value.

Thought should be given to determine if an item is its own capital asset or is a component part of an asset. A component part of an asset is an item that cannot be used independently of an asset and is physically connected to another asset. A component part should be included as a part of the cost and description of the overall asset unless the value of the part itself is greater than \$5,000.

If multiple component parts are purchased to create an asset and the value of each individual component part is not greater than \$5,000, the asset should not be capitalized.

If multiple component parts are purchased to create an asset and the value of each individual component part is greater than \$5,000, each component part should be individually capitalized.

Example: Financial Services wishes to buy five new desks. The following scenarios could occur:

Five desks were purchased at \$5,555/each; five individual desks would be capitalized at a cost of \$5,555/each.

In this example, the desk is an individual asset.

Five desks were purchased at \$5,555/each, five desk hutches were purchased to go on top of the desks at \$1,000/each; five individual desks would be capitalized at a cost of \$6,555/each.

In this example, the desk is an individual asset and the hutch is a component part.

Five desks were purchased that came in different sections (drawers, filing cabinets, overhead cabinets, panels, desktops, etc), each section was \$500 - \$3,000 and each constructed desk totaled \$6,000/each; no desks would be capitalized.

In this example, each section is a component part.

Five desks were purchased that came in different sections (drawers, filing cabinets, overhead cabinets, panels, desktops, etc.), each section was \$5,100 - \$6,500; each individual section would be capitalized separately.

In this example, each section is an individual asset.

Improvements vs. Repairs and Maintenance

Costs are frequently incurred that relate to capitalized assets. Thought should be given as to whether the costs are improvements or repairs and maintenance.

Improvements **provide additional value** to an asset by either lengthening the estimated useful life of an asset or increasing the capital assets ability to provide service. Costs of improvements should be capitalized.

Repairs and maintenance **retain the value** of an asset rather than provide additional value. Costs of repairs and maintenance are expensed in the period that they are incurred.

Some examples of repairs and maintenance are but not limited to:

- *Add, removing or moving of walls*
- *Plumbing or electrical repairs*
- *Cleaning, pest extermination or other periodic maintenance*
- *Interior and exterior decoration*
- *Interior renovations (repainting, touch-up plastering, carpet or tile replacement, sink and fixture refinishing)*
- *Exterior renovations (repainting, residing, replacement of roof or masonry)*
- *Replacement of a part or component of a building with a new part of the same type and performance capabilities (boiler, HVAC, water heater)*

Useful Life of an Asset

The useful life of an asset is the amount of time that the asset will be of use to the County. New Kent County depreciates its assets over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Capital improvements	20-50
Machinery and equipment	5-30
Infrastructure	65
Vehicles	5-8
Water and sewer facilities	50

Capital Asset Coordinator

Every department should designate a Capital Asset Coordinator. The Coordinator is responsible for assisting Financial Services in ensuring the correct and appropriate recording and maintenance of the assets maintained by his or her department. Duties include:

- Completing a Capital Asset Action Form for each change in an asset's status
- Reviewing his or her department's asset listing as requested by Financial Services
- Assisting Financial Services in correctly recording capital assets

Capital Asset Action Form

The Capital Asset Action Form (CAAF) is required to be completed any time an asset is:

- Purchased
- Constructed
- Obtained through a capital lease
- Donated
- Seized
- Transferred
- Determined to be surplus property or otherwise disposed

The CAAF should be completed by the Capital Asset Coordinator within two to three days of the action taking place. All CAAF's should be forwarded to Financial Services.