County of Roanoke
Capital Asset Policy

Department of Finance	Revised April 2019

Capital Assets

Capital assets are tangible or intangible assets that are obtained for use in operations. The County of Roanoke (the County) capitalizes assets that have an individual cost that exceeds the thresholds in the table below and an expected useful life of more than two years. Groups of smaller items that exceed the capitalization threshold in the aggregate may be capitalized if the aggregate cost is material to the financial statements. The County's capitalization threshold for aggregate costs is$175,000. If federal and/or state capital asset policies and regulations conflict with the policy of the County, the federal and state policies and regulations will prevail. However, if federal and/or state policies and regulations are less restrictive than the County policy, then the County policy will prevail. Capital assets can be purchased, constructed, or donated, and fall into one of the categories below:

Capital Asset Category	Capitalization Threshold
Land	$ 20,000
Buildings	20,000
Building/Land Improvements	20,000
Furniture, Fixtures, and Equipment	10,000
Vehicles	10,000
Construction in Progress	based on anticipated final asset cost

Capital Asset Categories

A. Land

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. Expenses to prepare the land for its intended use are capitalized. Capitalizable costs for land include purchase price, legal and title fees, easements, grading, etc.

B. 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 replacement of a roof, is expensed as incurred.

C. Building/Land Improvements

Land improvements add value to the land and can be inexhaustible or exhaustible.

- Inexhaustible
  Inexhaustible land improvements include costs that are necessary to bring the land to its intended condition for use. Initial improvement costs, such as clearing, filling, grading, and leveling of land, are included in the cost of the land.

- Exhaustible

  Land improvements that are exhaustible, or deteriorate over time, are capitalized separately and depreciated. Examples include, but are not limited to, parking lots, fences, and landscaping.

Building improvements are capitalized if they prolong the useful life of the asset, or increase the value or future economic benefit of the individual asset. Regular maintenance or minor renovations, however, are not capitalized by the County.

D. Furniture, Fixtures, and Equipment

Furniture, fixtures, and equipment are assets that include machinery, furnishings, software, and similar items. Capitalizable costs include net purchase price, taxes, transportation, installation, etc. Lump-sum purchases of a group of smaller items that are below the individual capitalization threshold (network equipment, furniture, etc) are not capitalized unless the aggregate cost is considered to be material to the financial statements. The County's capitalization threshold for aggregate costs is $175,000.

- Software

Software is considered an intangible asset and should be capitalized if purchased or developed for internal uses. Acquisition costs and other costs incurred to customize the software are also capitalized. Major software upgrades that provide a significant increase in functionality or exceed the aggregate capitalization threshold are capitalized. Internally generated computer software has additional qualifications for capitalization. Internally generated software development is considered to occur in three phases:

- Preliminary Project Stage: conceptual formulation, evaluation of alternatives, determination of existence of needed technologies, and final selection from alternatives
- Application Development Stage: design of the chosen path, coding, installation to hardware, testing, and data conversion needed to make software operational
- Post-Implementation/Operations Stage: application training and software maintenance

Costs are only capitalized in the application development stage once the preliminary project stage is complete. Costs can only be capitalized once management authorizes and commits to funding. Costs in the preliminary project stage and post-implementation/operations stage are not capitalized.

E. Vehicles

Vehicles include cars, trucks, ambulances, etc. used by the County in its normal operations. Capitalizable costs for vehicles include net purchase price, taxes, transportation, etc. Vehicles are capitalized individually and tracked in coordination with the County Garage.

F. Construction in Progress

Construction in progress is used for costs incurred to construct capital assets before they are substantially complete. Costs during construction are tracked throughout the construction period in an effort to represent reliable information on the County's financial statements. Furniture, fixtures, and equipment that are associated with the project are capitalized separately as costs are incurred and are not included in the construction costs of the project.

Capitalizable Costs

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

- Purchase price
- Costs needed to place the asset at its intended location, i.e. freight
- Costs needed to place the asset in its intended condition for use, i.e. installation and site preparation costs

All costs must be directly identifiable with a specific asset to be capitalized. Costs incurred after the asset acquisition is considered to be probable are capitalized. Internal costs that directly relate to the acquisition or construction of a specific asset are also capitalized. Assets donated by third parties are recorded at fair market value.

Identification

Capital assets are assigned a Microsoft Dynamics (DAX) system-generated identification number. Equipment will be identified by serial number or department-maintained identification number (i.e. Parks and Recreation equipment ID) for purposes of periodic inventory observations. Land will be identified by the tax map identification number.

Depreciation

Depreciation is a method to distribute the cost of a capital asset over its useful life in a systematic and rational manner. The County uses the straight-line method to depreciate capital assets. Assets are assumed to have no salvage value at the end of their useful lives. Depreciation is prorated by month in the year of acquisition and disposal. Depreciation begins the month following the acquisition date. Capital assets are depreciated based on the useful life schedule below:

Capital Asset Category	Useful Life
Land and Land Improvements (Inexhaustible)	Indefinite
Buildings	40 years
Building/Land Improvements (Exhaustible)	20 years
Furniture and Office Equipment	5 years
Machinery & Equipment	5-10 years
Computer-related Equipment	3-5 years
Miscellaneous Buildings	5-25 years
Non-specialized vehicles	5 years
Garbage and Dump trucks	10 years
Fire and Rescue Vehicles	10 years
Motorcycles	5 years
Police Vehicles	3 years
Trailers	5 years

Depreciation expense must be reported as a reduction of net assets in the government-wide statement of activities. Accumulated depreciation reduces the carrying amount of capital assets as reported in the government-wide statement of net assets.

Dispositions

It is at the discretion of the department to determine when an asset is considered for disposition. Once an item has been disposed, the department should notify the Finance Department so the item can be removed from the capital asset system. A capital asset report is sent to departments annually to verify that all assets are correct.

Inventory Review

The Finance Department (Finance) will conduct a physical observation of capital assets each fiscal year. Each County department will be reviewed every 3 fiscal years, with one third of the County departments being reviewed each fiscal year on a rolling schedule. The purpose of the observation is to verify assets of a moveable nature, i.e. equipment and vehicles. Buildings, building/land improvements, and land are static assets that can be verified easily and will not be purchased or disposed of without the knowledge of Finance. Finance will verify every asset for each small department on the capital asset inventory during the annual observation. Finance will verify 10% of the assets for each large department on the capital asset inventory during the annual observation; these assets will be randomly selected. A large department is defined as a department where its capital assets that are classified as equipment or vehicles make up more than 5% of the total count of equipment and vehicles listed in the County's capital asset inventory. This calculation will be updated annually to determine which departments will be considered large departments. If Finance determines that the 10% sample for a large department is not adequate to gain assurance that all assets are listed correctly for the department, then the sample may be expanded to gain such assurance. The sample must be expanded if less than 75% of the assets selected in the sample are listed correctly.

Land and buildings do not fall under the aforementioned policy. Land and buildings will be verified every 3 fiscal years by the Finance Department.

This policy shall be effective as of April 1, 2019, and shall be enacted retroactively to all capital assets purchased by the County of Roanoke on or after July 1, 2018.