



## **Knox County Government**

### **Department of Finance**

#### **Capital Asset Investment and Management Policy**

#### **I. Purpose:**

Capital assets have a major impact on the ability of the County to deliver services that affect the economic vitality and overall quality of life for County residents, taxpayers, and other stakeholders. The purpose of this policy is to establish guidelines for the acquisition and reporting of capital assets in order to provide information for capital investment and management decisions.

#### **II. Definitions:**

- A. **Capital Assets** – Capital assets are assets that are used in operations and have initially estimated useful lives in excess of two years following the date of acquisition.
- B. **Capital Improvement Plan (CIP)** – The plan that describes the acquisition and/or construction of capital facilities and assets (capital projects) and associated funding sources the County intends to undertake during the upcoming five future fiscal years.
- C. **Capital Project** – Construction projects and capital purchases that generally cost in the aggregate more than \$100,000 and/or have an initially estimated useful life greater than seven years.
- D. **Capitalization Threshold** – The monetary criterion used to determine whether a given capital asset should be reported in the financial statements.
- E. **Depreciation** – The systematic and rational association of the cost of a capital asset over its useful life.
- F. **Operating Budget** – Annual expense plan that details the expected costs associated with providing County services.

III. Policy:

- A. Construction projects and capital purchases that generally cost in the aggregate more than \$100,000 and/or have a useful life of greater than seven years will be included in the Capital Improvement Plan. Furniture, fixtures and equipment purchased for major additions or renovations will be included in the plan; all other regular maintenance and capital purchases less than \$100,000 will be included in the operating budget.
- B. The purpose of the Capital Improvement Plan is to plan, schedule, and anticipate financing for capital projects for the next five years.
- C. Department Heads and Elected Officials will prepare the project proposals and present the requests to the Department of Finance. The Public Building Authority will assist with the calculation of project costs and schedules. The project proposals from the Knox County School System will be forwarded to the Department of Finance once the Knox County School Board adopts its request. Operating costs associated with the project must be provided by the department or elected official and are not included in the Capital Improvement Plan.
- D. The Knox County Department of Finance and County Mayor will review the project requests and make recommendations to the County Commission. The final plan recommended by the County Mayor includes the financing of the projects recommended. Financing for the capital budget will come from General Obligation Bonds and other sources. If a specific current revenue source is identified for a project, then that funding is included in the plan.
- E. Budget appropriations for projects included in the first year of the approved Capital Improvement Plan, for which financing is planned for the upcoming fiscal year, are required to be approved by the County Commission. Budgetary approval for projects planned for the subsequent years, for which the financing is planned in those future years, is generally not obtained during the first year of the Capital Improvement Plan and is subject to revision in subsequent years' Capital Improvement Plans as the expected capital needs; and anticipated availability of the related financing, may change in response to future economic conditions and other circumstances.
- F. Capital assets are recorded at historical cost (or estimated historical cost, if historical cost is not available) if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Historical cost includes the purchase price of the asset, plus related ancillary charges necessary to place the asset in its intended location or to prepare it for its intended use. Such

charges include, for example, legal and title fees, closing costs, land-preparation costs, architect fees, and transportation charges.

- G. The capitalization thresholds used for determining whether a capital asset is to be reported in the financial statements are determined based on the expenditures, individually or in the aggregate, incurred to acquire the asset. For public infrastructure assets (primarily roads) and system infrastructure assets (e.g., street lighting, drainage systems), the capitalization threshold is \$25,000. For all other classes of capital assets (including land, buildings and building improvements, vehicles, machinery and equipment, and intangible assets) the capitalization threshold is \$10,000.
- H. Additions to existing capital assets are recorded as capital assets only if (1) the additional expenditures, individually or in the aggregate, exceed \$10,000, and (2) the addition extends the useful life of the existing asset or enhances its functionality. The costs of normal maintenance and repairs that do not add to the value of an asset or that materially extend useful lives are not capitalized. Such items are reported as expenditures/expenses of the period in which they are incurred.
- I. Capital assets that meet the capitalization threshold and, therefore, are recorded in the financial statements are depreciated. The exception is land, which is not depreciated as land is inexhaustible and therefore does not have a useful life. Depreciation is reported using the straight-line method based on the estimated useful lives of classes of assets, as follows:

<u>Asset Class</u>	<u>Useful Life (Years)</u>
Buildings	45
Land Improvements	10-20
Public Domain Infrastructure	40
System Infrastructure	25
Vehicles	5
Machinery and Equipment	5-20
Intangible Assets	5-10

IV. Quality Control and Quality Assurance:

It is the responsibility of the Senior Director of Finance to ensure the presence of procedures that provide sufficient guidance to affected County personnel to fulfill the intent of this policy.

These policies will be reviewed at least annually and updated on an as-needed basis.