RESOLUTION NO. 2003-51

RESOLUTION BY THE BOARD OF COUNTY COMMISSIONERS OF ST. JOHNS COUNTY, FLORIDA ADOPTING AS PART OF THE ST. JOHNS COUNTY ADMINISTRATIVE CODE, A NEW FIXED ASSET POLICY.

WHEREAS, the Board of County Commissioners of St. Johns County, Florida (the "Board"), has determined to adopt a written fixed asset policy, as provided in Section 274, Florida Statutes, as amended, in the form attached hereto as Exhibit A (the "Fixed Asset Policy");

WHEREAS, the Board must establish a policy for capitalizing assets including infrastructure assets, and for establishing the useful lives of those assets;

WHEREAS, the Board must choose whether to use the modified approach for reporting eligible infrastructure assets;

NOW, THEREFORE, BE IT ADOPTED by the Board of County Commissioners of St. Johns County, Florida:

SECTION 1. FIXED ASSET POLICY. The Board hereby adopts as part of the County Administrative Code, Section 210 entitled Fixed Asset Policy (the "Policy") attached hereto as Exhibit A.

A. This policy is promulgated pursuant to Chapter 274, Florida Statutes, to promote the control, capitalization and safeguarding of tangible personal property including infrastructure assets, and to prescribe accounting guidance for reporting local government-owned capital assets and related depreciation as required by Statement No. 34 of the Governmental Accounting Standards Board (GASB), Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments

B. At present, the Board elects not to use the modified approach for reporting eligible infrastructure assets, and chooses to use the straight-line method of depreciation for all County fixed assets as described within the Policy.

C. The Board adopts the policies outlined in Chapter 10.440, Rules of the Auditor General, entitled Local Government-Owned Tangible Personal Property as part of the Policy.

SECTION 2. AMENDMENTS. The Policy may be amended by resolution of the Board.

SECTION 3. SEVERABILITY. It is hereby declared to be the intent of the Board that if any section, subsection, clause phrase or provisions of this resolution is held invalid or unconstitutional, such invalidity or unconstitutionality shall not be construed as to render invalid or unconstitutional the remaining provisions of this resolution.

SECTION 4. EFFECTIVE DATE. This resolution shall take effect upon adoption.

DULY ADOPTED this 11th day of March, 2003.

BOARD OF COUNTY COMMISSIONERS
ST. JOHNS COUNTY, FLORIDA

James E. Bryant

JAMES E. BRYANT, CHAIRMAN

ATTEST: **Cheryl Strickland, Clerk**

Patricia De Grande

DEPUTY CLERK

RENDITION DATE 3-17-03

ST. JOHNS COUNTY
ADMINISTRATIVE CODE

Section: Budget and Finance	Date Issued: March 11, 2003
Title: Capital Asset Policy	Reference: Section 274, Florida Statute

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210.1. Introduction

For fiscal year ending September 30, 2002, St. Johns County will be required to implement Statement No. 34 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments.* Statement No. 34 establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will create new information and will restructure much of the information that governments have presented in their annual reports in the past. The intent of these new requirements is to make annual reports more comprehensive and easier to understand and use.

Two key implementation challenges the new reporting model presents are infrastructure reporting and depreciation accounting. Statement No. 34 requires the county to prospectively report all general infrastructure assets acquired after the implementation date of the statement; September 30, 2001. In addition, Statement No. 34 requires the state to retroactively report all major general infrastructure assets acquired in fiscal years ending after June 30, 1980. With respect to depreciation, Statement No. 34 requires all applicable general fixed assets to be depreciated over their estimated useful lives. Also, the county is required to establish a policy for capitalizing assets and for estimating the useful lives of those assets.

In response to the requirements established by Statement No. 34, the Board of County Commissioners (the "Board") has established this policy to provide guidance to County Departments on implementing the new reporting requirements in regards to capital assets for financial statement purposes only. The purpose of this policy is to achieve consistency regarding the accounting of county-owned capital assets and related depreciation for the preparation of the financial statements required by Statement No. 34.

Capital asset reporting thresholds as established in this policy may be higher than the existing thresholds for property control due to different objectives. The primary objectives of financial reporting generally pertain to valuation, allocation, presentation, and disclosure, whereas the primary objectives of property control generally pertain to efficiency, effectiveness, and safeguarding of assets. For example, controls designed to prevent or promptly detect a loss of a small value asset, while important operationally, are not necessarily relevant for financial reporting purposes. Because of the objective differences, this policy should not be used for property control purposes. County agencies and departments are encouraged to refer to Chapter 10.400, *Local Government-Owned Tangible Personal Property*, Rules of the Auditor General, and appropriate sections of Chapter 274, Florida Statutes, for guidance on property control.

210.2. Capital Asset Definitions and Guidelines

Capital assets are major tangible or intangible assets that benefit a department more than a single fiscal year. If assets meet the definition of capital assets, but are held primarily for resale, they are not considered capital assets. Departments should budget capital assets, including **infrastructure**, in the applicable general ledger account based on the nature of the asset. Examples of capital assets include land, land improvements, easements, buildings, vehicles, infrastructure, and works of art and historical treasures.

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, water and sewer systems, and lighting systems. Buildings should not be considered infrastructure assets, except buildings that are an ancillary part of a network of infrastructure assets, such as a maintenance shop or out-building associated with a water treatment system.

The county has invested in a broad range of capital assets that are used in the county's operations, which include:

- Land
- Buildings and other improvements
- Infrastructure
  - Arterial roads
  - Major collector roads
  - Minor collector roads
  - Local roads
  - Bridges
- Utility Assets
  - Process Structures
  - Process Equipment
  - Pipelines and Appurtenances
- Equipment
  - Furniture and equipment
  - Vehicles, boats and aircraft
- Library Collection
- Works of art and historical treasures
- Computer Software
- Leasehold improvements
- Construction in progress

210.2.1. **Capital Asset Classification -** Assets purchased, constructed or donated that meet or exceed the BCC's established capitalization thresholds or minimum reporting requirements must be uniformly classified. A list of current class code structures for personal and real property is in Appendix A.

Each class code contains a default value for both salvage value and estimated useful life (expressed in years). The default value is $1.00 or is based upon contractual repurchase agreements. However, departments are allowed to substitute information for salvage value and/or estimated life based on individual experience for each class of asset. Any substitutions must be substantiated and auditable.

210.2.1.1. **Capitalization Thresholds -** Standard capitalization thresholds for capitalizing assets have been established for each major class of assets. All departments are required to use these thresholds.

Class of Asset	Threshold
Land	Capitalize All
Buildings and other improvements	$25,000
Infrastructure	$100,000
Utility Assets	$5,000
Equipment	$ 750
Library books/materials (collections)	Capitalize All
Works of art/historical treasures	Capitalize All
Software developed for internal use	$25,000
Leasehold improvements	$25,000

210.2.1.2. **Capital Asset Acquisition Cost -** Capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.

When the historical cost of a capital asset is not practicably determinable, the estimated historical cost of the asset should be determined by appropriate methods and recorded. Estimated historical costs should be so identified in the record and the basis of determination established in the public records. The basis of valuation for capital assets constructed by agency personnel should be the costs of material, direct labor, and overhead costs identifiable to the project.

The departments are responsible for correctly reporting these assets at the date of acquisition. Any improvements made to a capital asset that extends the useful life of the asset beyond one year should be capitalized.

210.2.1.2.1. The costs of capital assets for ***governmental activities*** do not include capitalized interest. However, interest is capitalized on:

- Assets that are constructed or otherwise produced for an enterprise fund's own use (including assets constructed or produced for the enterprise by others for which deposits or progress payments have been made).

- Assets intended for sale or lease that are constructed or otherwise produced as discrete projects (for example, ships or real estate developments)

210.2.1.2.2. Assets that do not qualify for capitalization of interest include:

- Assets acquired for governmental activities (interest will be reported in the statement of activities as a separate line item)

- Assets that are in use or ready for the intended use in the earning activities of the enterprise.

- Assets that are not being used in the earning activities of the enterprise and that are not undergoing the activities necessary to get them ready.

- Assets acquired with gifts and grants that are restricted by the donor or grantor to acquisition of those assets to the extent that funds are available from such gifts and grants

210.2.1.2.3. For object expenditure codes, see Appendix A. Historical costs also include ancillary charges, site preparation costs and professional fees.

210.2.1.3. **Capital Asset Donations -** GASB Statement No.33, *Accounting and Financial Reporting for Non-Exchange Transactions,* defines a donation as a voluntary non-exchange transaction entered into willingly by two or more parties. Both parties may be governments or one party may be a nongovernmental entity, including an individual. **A voluntary contribution of resources between departments is not a donation.**

All developer contributed and private donated capital and infrastructure assets must provide and include the associated costs in accordance with the guidelines outlined in this policy prior to acceptance by the BCC through regulations adopted within the county's current land development and utility ordinances, and implementing procedures. The values will be reviewed by the appropriate county staff and should include all costs, including easements and rights-of-way, and ancillary charges relating to the asset.

For governmental funds, GASB 33 is effective beginning in fiscal 2002 or September 1, 2001. For departments with proprietary or fiduciary funds, GASB 33 is effective in fiscal 2001 or September 1, 2000. The timing of recognition of the asset and related revenue is outlined as follows:

	Governmental Activities (Effective fiscal 2002)	**Business Type Activities (Effective fiscal 2001)**
Donations	If the asset has been received but the eligibility requirements **have not** been met, then capital assets are debited and deferred revenue is credited in the *government-wide financial statements.* If the asset has been received and the eligibility requirements **have** been met, then capital assets are debited and revenue is credited in the *government-wide financial statements.* If the asset has not been received but the eligibility requirement **have** been met, then a receivable is debited and revenue is credited in the *government-wide financial statements.*	If the asset has been received but the eligibility requirements **have not** been met, then capital assets are debited and deferred revenue is credited in the *fund financial statements.* If the asset has been received and the eligibility requirements **have** been met, then capital assets are debited and revenue is credited in the *fund financial statements.* If the asset has not been received but the eligibility requirements **have** been met, then a receivable is debited and revenue is credited in the *fund financial statements.*
Promises Of capital Asset Donations	Promises should be recognized as receivables and revenues (net of estimated un-collectable amounts) on the *government-wide financial statements* when all applicable eligibility requirements are met, provided that the promise is verifiable and the resources are measurable* and probable** of collection.	Promises should be recognized as receivables and revenues (net of estimated un-collectable amounts) on the *fund financial statements* when all applicable eligibility requirements are met, provided that the promise is verifiable and the resources are measurable* and probable** of collection.

210.2.1.4. **Sale of a Capital Asset Donation -** Governmental fund statements per GASB 34 are to be used to report spendable assets and not capital assets. However, there may be instances when a government receives a gift of a capital asset that it intends to sell. In such cases, the donation will be reported as revenue on the governmental fund statements if the asset is either:

- Sold prior to the end of the fiscal period, and the proceeds of the sale are considered available***, or

- The asset is sold (or the government has entered into a contract to sell the asset) prior to the issuance of the financial statements, and the proceeds of the sale are considered available.
- If the proceeds of the sale are not considered available, then the related receivable should be offset by a liability for deferred revenue on the fund financial statements.

*Measurable – Reasonable estimable
**Probable – The future event of events are likely to occur
***Available – Collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

210.2.1.5. **Leased Equipment -** Equipment should be capitalized if the lease agreement meets any one of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains a bargain purchase option.
- The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
- The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90 percent of the fair value of the leased property.
- Leases that do not meet any of the above requirements should be recorded as an operating lease and reported in the notes of the financial statements.

210.3. <u>Depreciating Capital Assets</u>

210.3.1. Capital assets should be depreciated over their estimated useful lives unless they are:

- Inexhaustible (i.e., land and certain works of art and historical treasures),
- Infrastructure assets reported using the modified approach as discussed in Statement No. 34 (see section on Infrastructure and Infrastructure Improvements of this policy), or
- Construction in Progress

210.3.2. Departments will use the straight-line depreciation method (historical cost less salvage value, divided by useful life). Depreciation data will be calculated and stored by the Finance Department for each eligible asset. Accumulated depreciation will be summarized and posted to the accounting general ledger for all proprietary funds.

210.3.3. Proceeds from sale of assets must be netted against salvage value in computing net gain or loss from sale.

210.4. <u>Sale of Capital Assets</u>

When an asset is sold, a gain or loss must be recognized in the annual report when:

- Cash is exchanged and the amount paid does not equal the net book value of the asset
- Cash is not exchanged and the asset is not fully depreciated or has a salvage value

A gain or loss **is not** reported when:

- Cash exchanged equals the net book value and the asset does not have a salvage value

- Cash is not exchanged and the asset is fully depreciated and has no salvage value

210.4.1. Computation of Gain and Loss from Sale of Assets

To compute a gain or loss on assets, which have not been fully depreciated, proceeds received must be subtracted from the assets net book value.

Example:	Asset's Historical Cost	$ 10,000
	Less accumulated Depreciation	7,000
	Net book value	$ 3,000
	Subtract Proceeds Received	2,000
	Loss from Sale of Asset	$ 1,000

If the asset has been fully depreciated and has a salvage value, then the proceeds must be subtracted from the salvage value to compute the gain or loss.

Example:	Asset's Historical Cost	$10,000
	Less Accumulated Depreciation	9,000
	Net book value	$ 1,000
	Subtract Proceeds Received	2,000
	Gain from Sale of Asset	$ 1,000

> **Note:** When the sale (transfer) is between governmental departments, the historical cost of the asset and the accumulated depreciation will transfer to the department receiving the asset.
>
> When the sale (transfer) is between governmental and enterprise fund departments, the fair market value of the asset must be determined, and the sale (transfer) must be an "arms-length" transaction between the departments.
>
> Net Book Value = asset's historical cost less then accumulated depreciation.

210.4.2. Assets Acquired by the Exchange of Other Assets

210.4.2.1. Similar assets - When recording an exchange of similar assets, departments must use a book value basis for the assets surrendered or required.

- When assets are exchanged and no monetary consideration is paid or received, the cost of the asset acquired is recorded at the book value of the asset surrendered.

- Where monetary consideration is given, the new asset must be recorded at the sum of the cash paid plus the book value of the asset surrendered.

210.4.2.2. Dissimilar assets – When recording an exchange of dissimilar assets, agencies must:

- Record the value of the asset being traded and the resulting transaction for acquiring the new asset, using the fair value of the asset being traded.

- If cash is used to purchase the asset, agencies must record the transaction for the new asset as cash paid plus the fair value of the asset surrendered.

210.4.3. Assets Held in Trust

Capital assets held by a department on behalf of a non-county entity (such as art collections owned by families, estates and others) and that are under the temporary control of the department should be inventoried by the Finance Department. Currently, the accounting treatment is being researched. This includes assets owned by the federal, state, and local government that have been loaned to a county department. Asset held in trust must be reported to the Finance Department using the appropriate acquisition and disposal method for such assets.

210.5. Capital Asset Categories

210.5.1. Land

210.5.1.1. **Land Definition** - Land is the surface or crust of the earth, which can be used to support structures, and may be used to grow crops, grass, shrubs, and trees. Land is characterized as having an unlimited life (indefinite). Easements and rights-of-way related to infrastructure assets are also included as land.

Additionally, ancillary charges, site preparation and site improvements (other than buildings) that ready the land for its intended use are included. These costs associated with the land are added to the cost of the land.

210.5.1.2. **Depreciation Methodology** - Land is inexhaustible asset and does not depreciate over time.

210.5.1.3. **Capitalization Threshold** - All acquisitions of land will be capitalized.

Examples of Expenditures to be Capitalized As Land

- Purchase price or fair market value at time of gift
- Commissions
- Professional fees related to the acquisition of land (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.)
- Land excavation, fill, grading, drainage
- Demolition of existing buildings and improvements (less salvage)
- Removal, relocation, or reconstruction of property of others (railroad, telephone, and power lines)
- Interest on mortgages accrued at date of purchase
- Accrued and unpaid taxes at date of purchase
- Other costs incurred in acquiring the land
- Water wells including initial cost for drilling, the pump and its casing. **(excluding utility capital improvements).**
- Right-of-way

210.5.2. **Building and Other Improvements**

210.5.2.1. **Building Definition -** A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable. Buildings that are an ancillary part of the county's utility system or infrastructure network, such as toll buildings will be reported as infrastructures rather than as buildings.

210.5.2.2. **Building Improvements Definition -** Building improvements are capital events that materially extend the useful life of a building or increase the value of a building, or both, beyond the current depreciable life. A building improvement should be capitalized as a betterment, if the expenditure for the improvements is at the capitalization threshold, or the expenditure increases the life or value of the building by 25 percent of the original life period or cost. The betterment will be recorded as an addition of value to the existing building.

210.5.2.3. **Other Improvements Definition -** Other improvements are capital events that materially improve the usefulness of county property. Assets (other than general use buildings) built, installed, or established to enhance the quality of facilitate the use of land for a particular purpose.

These improvements include park and recreation resources (i.e., ball fields, restrooms, golf greens, etc.), operating resources (i.e., parking and landscaping improvements, poll barns, stables, sheds, etc.) and other improvements that are not included within the other definitions.

Additionally, ancillary charges, which are associated with the purchase or construction of these items, are added to the cost.

210.5.2.4. **Depreciation Methodology** - The straight-line depreciation method (historical cost – salvage value/useful life) will be used for buildings, building and other improvements, and their components. Subsequent improvements that change the use or function of the building shall be depreciated.

210.5.2.5. **Capitalization Threshold** - The capitalization threshold for buildings and other improvements is $25,000.

Examples of Expenditures to be Capitalized as Buildings

Purchased buildings

- Original purchase price
- Expenses for remodeling, reconditioning or altering a purchased building to make it ready to use for the purpose for which it was acquired.
- Environmental compliance (i.e., asbestos abatement)
- Professional fees related to the purchase of buildings (legal, architect, inspections, title searches, etc.)
- Payment of unpaid or accrued taxes on the building to date of purchase
- Cancellation or buyout of existing leases
- Other costs required to place or render the asset into operation including in-house departmental costs provided by various county departments

Constructed Buildings

- Completed project costs
- Interest accrued during construction
- Cost of excavation or grading or filling of land ***for a specific building***
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of building permits
- Professional fees related to the design and construction of buildings (architect, engineer, management fees for design and supervision, legal)
- Costs of temporary buildings used during construction
- Unanticipated costs such as rock blasting, piling or relocation of the channel of an underground stream

- Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
- Additions to buildings (expansions, extensions, or enlargements)

Examples of Expenditures to be Capitalized as Improvements to Buildings

Note: For a replacement to be capitalized, it must be a part of a major repair or rehabilitation project, which increases the value, and/or useful life of the building, such as renovation of a recreation center. A replacement may also be capitalized if the new item/part is of significantly improved quality and higher value compared to the old item/part such as replacement of an old shingle roof with a new fireproof tin roof. Replacement or restoration to original utility level would not be capitalized. Determinations must be made on a case-by-case basis.

- Conversion of attics, basements, etc., to usable office, clinic, research or classroom space
- Structures ***attached*** to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.
- Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents
- Original installation/upgrade of wall or ceiling covering such as carpeting, tiles, paneling, or parquet
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing
- Installation or upgrade of window or door frame, upgrading of windows or doors, built-n closet and cabinets
- Interior renovation associated with casings, baseboards, light fixtures, ceiling trim. Etc.
- Exterior renovation such as installation or replacement of siding, roofing, masonry, Etc.
- Installation or upgrade of plumbing and electrical wiring
- Installation or upgrade of phone or closed wire circuit television systems, networks, fiber optic cable, wiring required in the installation of equipment (that will remain in the building)
- Other costs required to place or render the asset into operation including in-house departmental costs provided by various county departments

210.5.2.6. **Building Maintenance Expense**

The following are examples of expenditures ***not*** to capitalize as improvements to buildings. Instead, these items should be recorded as maintenance expense.

- Adding, removing and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building

- Improvement projects of minimal value to the building and/or that do not add to the life expectancy of the building
- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Interior decoration, such as draperies, blinds, curtain rods, wallpaper
- Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.
- Maintenance-type interior renovation, such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections; sink and fixture refinishing, etc.
- Maintenance-type exterior renovation such as repainting, replacement of deteriorated siding, roof, or masonry sections
- Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an old boiler with a hew one of the same type and performance capabilities
- Any other maintenance-related expenditure which does not increase the value of the building

Examples of Expenditures to be Capitalized as Other Improvements

- Fencing and gates
- Landscaping
- Parking lots/driveways/parking barriers
- Outside sprinkler systems
- Recreation areas and athletic fields (including bleachers)
- Golf courses
- Paths an trails
- Septic systems
- Stadiums
- Swimming pools, tennis courts, basketball courts
- Fountains
- Plazas and pavilions
- Retaining walls

210.5.3. **Infrastructure**

210.5.3.1. **Infrastructure Definition -** Assets that are long-lived capital assets and that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Infrastructure assets are often linear and continuous in nature.

Note: Prospective reporting of general infrastructure assets is required beginning in fiscal 2002. Also required is the retroactive reporting of infrastructure asset purchased, constructed, or donated in fiscal years ending after June 30, 1980 or that received major renovation, restorations, or improvements during that period. The county is encouraged to report their entire infrastructure, if possible.

210.5.3.2. **Infrastructure Improvements Definition** - Infrastructure improvements are capital events that materially extend the useful life or increase the value of the infrastructure, or both beyond the current depreciable life. Infrastructure improvements should be capitalized as betterment and recorded as an addition of value to the infrastructure if the improvement or addition of value is at the capitalization threshold or increases the life or value of the asset by 25 percent of the original cost or life period.

210.5.3.3. **Jointly Funded Infrastructure** - Infrastructure paid for jointly by the state and other governmental entities should be capitalized by the entity responsible for future maintenance.

Additionally, ancillary charges, which are associated with the purchase or construction of these items, are added to the cost.

210.5.3.4. **Modified Approach vs. Depreciation**

The modified approach is an alternative to reporting depreciation for infrastructure assets that meet the following criteria:

- The assets are managed using a qualifying asset management system.
- It is documented that the assets are being preserved at or above a condition level established by the government.

Depreciation is not reported for infrastructure assets that use the modified approach. Only infrastructure assets that comprise a network or subsystem of a network can be reported using the modified approach.

A department may choose to use either method or a combination of methods to account for its assets. The asset accounting strategy chosen by the department will need to be approved by the Clerk of the Court.

210.5.3.5. **Maintenance Costs** - Maintenance costs allow an asset to be used during its originally established useful life (design life). Maintenance costs are expensed in the period incurred.

210.5.3.6. **Preservation (or Renewal) Costs** - Preservation costs are generally considered to be those outlays that extend the useful life of an asset beyond its original estimated useful life, but do not increase the capacity or efficiency of the asset. Preservation costs should be expensed under the modified approach and capitalized under the depreciation approach.

210.5.3.7. **Additions and Improvements** - Additions and improvements are those capital outlays that increase the capacity, efficiency, or extend the useful life of the asset by 25 percent or more. A change in capacity increases the level of service provided by an asset. For example, additional lanes can be added to a highway or the weight capacity of a bridge could be increased. A change in efficiency maintains the same service level, but at a reduced cost. For example, a heating and cooling plant could be reengineered so that it produces the same temperature changes at reduced cost. The cost of additions and improvements should be capitalized under both the modified and depreciation approaches to reporting infrastructure. Departments must maintain appropriate documentation to support what constitutes an enhancement or useful life extension.

210.5.3.8. **Depreciation Methodology** - The straight-line depreciation method (historical cost less salvage value, divided by useful life) will be used for infrastructure assets.

210.5.3.9. **Capitalization Threshold** - The capitalization threshold for infrastructure is $100,000. Infrastructure already capitalized will remain capitalized.

Examples of Expenditures to be Capitalized as Infrastructure

- Roads, streets, curbs, gutters, sidewalks, fire hydrants
- Bridges, railroads, trestles
- Canals, waterways, wharf, docks, sea walls, bulkheads, boardwalks
- Dams, Drainage facility
- Radio or television transmitting tower
- Electric, water and gas (main lines and distribution lines, tunnels)
- Fiber optic and telephone distribution systems (between buildings)
- Light system (traffic, outdoor, street, etc.)
- Airport runway/strip/taxi way/apron

210.5.4. **Utility Assets**

210.5.4.1. **Utility Assets Definition** – Fixed or movable tangible assets to be used to provide potable water, wastewater and reclaimed wastewater service to the St. Johns County Utility Department customers, the benefits of which extend beyond one year from the date of acquisition.

210.5.4.2. **Utility Assets Improvements Definition** – Utility asset improvements are capital events that materially extend the useful life, increase the value, or upgrade to meet regulatory requirements of the Utility system or asset.

210.5.4.3. **Depreciation Methodology** – The straight-line depreciation method ((historical cost – salvage cost)/useful life) will be used for utility assets. Subsequent improvements that change the use or function of the assets shall be depreciated.

210.5.4.4. **Capitalization Threshold** – A utility asset should be capitalized if the expenditure meets the definition of improvement defined above and meets the capitalization threshold of $5,000 or more.

Examples of Expenditures to be Capitalized as Utility Assets

- Professional fees related to planning, the preliminary design, design, construction and acquisition of a utility asset (architect, engineer, geologist, surveyor, legal fees, inspections, etc.)
- Completed project costs.
- Interest accrued during construction.
- All permitting costs.
- Costs for all process structures, equipment, piping, pumps, and appurtenances.
- Ancillary costs associated with and required to be completed to put the utility asset into service.
- [LIST OF SPECIFIC UTILITY ASSETS, Lift Stations, Water mains, sewer force mains, high service pump building, above ground water tank, wastewater treatment plant clarifier, blower building, etc.]

<u>Examples of Expenditures to be Capitalized as Utility Asset Improvements</u>

> **Note:** For a renewal or replacement to be capitalized, it must be a part of a major repair or rehabilitation project, which increases the value, and/or useful life of the utility asset, such as replacement of clarifier equipment. Replacement or restoration to original utility level would not be capitalized. Determinations must be made on a case by case basis.

- Professional fees related to the design, construction, and inspections of an improvement to a utility asset.
- Liner installations in existing manholes lift stations, tanks and other process structures. This does not include normal painting or coating activities, but those lining activities that will extend the life of the asset beyond its original useful life.
- Rehabilitation and replacement of any process equipment including bar screens, aerators, clarifying equipment, major pumps and motors, filters, disinfection equipment, motor control centers, computerized control systems, and appurtenances.

- Other improvements similar to the improvements listed under Building improvements.

210.5.5. **Equipment**

210.5.5.1. **Equipment Definition -** Fixed or movable tangible assets to be used for operations, the benefits of which extend beyond one year from date of acquisition and rendered into service. Improvements or additions to existing personal property that constitute a capital outlay or increase the value or life of the asset by 25 percent of the original cost or life should be capitalized as a betterment and recorded as an addition of value to the existing asset.

> **Note:** Costs of extended warranties and/or maintenance agreements, which can be separately identified from the cost of the equipment, should not be capitalized.

210.5.5.2. **Jointly Funded Equipment -** Equipment paid for jointly by the county and other governmental and private entities should be capitalized by the entity responsible for future maintenance.

210.5.5.3. **Depreciation Methodology** - The straight-line depreciation method (historical cost less salvage value, divided by useful life) will be used for equipment.

210.5.5.4. **Capitalization Threshold** - The capitalization threshold for Equipment is $750.

Examples of Expenditures to be Capitalized as Equipment

- Original contract or invoice price
- Freight charges
- Import duties
- Handling and storage charges
- In-transit insurance charges
- Sales, use, and other taxes imposed on the acquisition
- Installation charges
- Charges for testing and preparation for use
- Costs of reconditioning used items when purchased
- Parts and labor associated with the construction of equipment

210.5.6. **Library Collection**

210.5.6.1. **Library Collection Definition**– The collection consists of library books, which is generally a literary composition bound into a separate volume and identified as a separate copyrighted unit, and library materials, which are information sources other than books that include journals, periodicals, microforms, audio/visual media, computer-based information, manuscripts, maps, documents, and similar items which provide information essential to the learning process or which enhance the quality of libraries. Changes in value for the county libraries will be reported on an aggregated net basis.

210.5.6.2. **Library Characteristics**

A county library normally has one or more of the following characteristics:

- Internal controls are in place in lieu of central property management.
- Information is housed in a centralized location.
- Physical security measures are in place to protect the assets.
- Checkout procedures and policies exist and are used.
- Individual item costs and supplemental information is generally contained in a supplemental database.
- Volumes assigned to libraries are typically available to employees, students, and other individuals for check-out or use.
- Existence of the library helps the entity fulfill its mission.
- The value is material to the organization.
- Equipment assigned to libraries typically remains under central security of on-premises use.

A library may be reported on a composite basis by making net adjustments to total value to reflect increase or decrease in total value. Net adjustments must be made at least once annually by the close of he fiscal year.

210.5.6.3. **Depreciation Methodology** - Professional, academic and research library books and materials are not considered exhaustible, and will not be depreciated. These library books and materials have an economic benefit or service potential that is used up slowly, and their estimated useful lives are extraordinarily long. Some books have a cultural, aesthetic, or historical value, and efforts are usually applied to protect and preserve these assets in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.

The straight-line depreciation method will be used for the collections purchased and used in a library if the capitalization threshold is met.

210.5.6.4. **Capitalization Threshold** - All purchases of books and materials for a library should be capitalized, as there is no minimum dollar amount. Library acquisitions are valued at a reasonable cost or other basis; deletions are valued at annually adjusted average cost. The library maintains records of all books and other library items, which suffice as detailed inventory records.

Books, periodicals and other materials purchased but not used in a library should be expensed unless they constitute a capital event.

Examples of Expenditures to be Capitalized
As Library Books and Materials

- Invoice price
- Freight charges
- Handling
- In-transit insurance charges
- Binding
- Electronic access charges
- Reproduction and life costs required to place assets in service, with the exception of library salaries

210.5.7. **Works of Art and Historical Treasures**

210.5.7.1. **Works of Art and Historical Treasures Definition -** Collections or individual items of significances that are owned by the county which are not held for financial gain, but rather for public exhibition, education or research in furtherance of public service. Collections or individual items that are protected and cared for or preserved and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

210.5.7.1.1. Exhaustible collections or items are items whose useful lives are diminished by display or educational or research applications.

210.5.7.1.2. Inexhaustible collection or items are items where the economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long. Because of their cultural, aesthetic, or historical value, the holder of the asset applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.

210.5.7.2. **Depreciation Methodology** - The straight-line depreciation method (historical cost less salvage value, divided by useful life) will be used for exhaustible collections. Inexhaustible items should not be depreciated.

210.5.7.3. **Capitalization Threshold** - All works of art and historical treasures acquired or donated will be capitalized based on the appraised value; unless held for financial gain.

If a collection is held for financial gain and not capitalized, disclosures must be made in the notes that provide a description of the collection and the reasons these assets are not capitalized. When donated collection items are added to non-capitalized collections, program expense equal to the amount of revenues should be recognized.

Examples of Expenditures to be Capitalized As
Works of Art and Historical Treasures

- Collection of rare books, manuscripts
- Maps, documents and recordings
- Works of art such as paintings, sculptures, and designs
- Artifacts, memorabilia, exhibits
- Unique or significant structures

210.5.8. **Computer Software**

210.5.8.1. **Computer Software Definition** – Departments will record the payment for the purchase of computer software whose unit value cost is $25,000 or greater and has an estimated useful life of more than one year. Capitalization of computer software includes software license fees if the total dollar amount of the fee divided by the number of units served (terminals) meets the criteria to capitalize the purchase.

210.5.8.1.1. For software to be considered for internal use, the department must meet the following tests:

- The software must be acquired, internally developed or modified solely to meet the department's internal needs, ***and***

- During the software's development or modification, the department must not have a substantive plan to market the software externally to other organizations.

210.5.8.1.2. Software development generally involves three phases. These phases and their characteristics are as follows:

- Preliminary project phase – when conceptual formulation of alternatives, the evaluation of alternatives, determination of existence of needed technologies and final selection of alternatives in made.

- Application development phase – Design of chosen path including software configuration and software interfaces, coding, installation of computer hardware and testing including parallel processing phase.

- Post-implementation/operation phase – training and application maintenance activities.

210.5.8.2. **Computer Software Capitalization Phases** – Costs associated with the preliminary project and the post-implementation/operating phases should be expensed as incurred. Internal and external costs associated with the application develop or obtain software that allows for assess of conversions of old data by new information systems should also be capitalized. General and administrative costs and overhead expenditures associated with software development should not be capitalized as cost of internal use software.

Capitalization of costs should begin when the preliminary project phase is complete and management has implicitly or explicitly authorized or commits to funding the software project with the intent it will be completed and used to perform its planned functions. Capitalization should cease no later than the time at which substantial testing is complete and the software is ready for its intended purpose or rendered in service.

Examples of Expenditures during the Application Development Phase to be Capitalized

- External direct costs of materials and services (third party fees for services)
- Costs to obtain software from third parties
- Travel costs incurred by employees in their duties directly associated with development
- Payroll and payroll-related costs of employees directly associated with of devoting time in coding, installing or testing
- Interest costs incurred during the application development

210.5.8.3. **Depreciation Methodology** - The straight-line depreciation method (historical cost less salvage value, divided by useful life) will be used for software developed or obtained for internal use.

210.5.8.4. **Capitalization Threshold** - The capitalization threshold for internally developed software is $25,000.

210.5.8.5. **Marketing of Software Developed or Obtained for Internal Use** - If a department decides to market the software, proceeds received from the license of the software, net of direct incremental costs (i.e., marketing, commissions, software reproduction costs, warranty and service obligations, and installation costs) should be applied against the carrying amount of the software.

Profits should not be recognized until aggregate net proceeds from licenses and amortization have reduced the carrying amount of the software to zero. Subsequent proceeds should be recognized in revenues as earned. If, during the development of internal use software, the County decides to market the software to other organizations, the County is required to follow the requirements of Financial Accounting Standards Board Statement No. 86 – Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed.

210.5.9. **Leasehold Improvements**

210.5.9.1. **Leasehold Improvements Definition** - Construction of new buildings or improvements made to existing structures by the lessee, who has the right to use these leasehold improvements over the term of the lease. These improvements *will revert to the leasor* at the expiration of the lease. Moveable equipment of office furniture that is not attached to the leased property is not considered a leasehold improvement. Leasehold improvements do not have a salvage value.

210.5.9.2. **Depreciation Methodology** - Leasehold improvements are capitalized by the lessee and are amortized over the shorter of (1) the remaining lease term, or (2) the useful life of the improvement. Improvements made in lieu of rent should be expensed in the period incurred. If the lease contains an option to renew and the likelihood of renewal is uncertain, the leasehold improvement should be written off over the life of the initial lease tem or useful life of the improvement, whichever is shorter.

210.5.9.3. **Capitalization Threshold** - The capitalization threshold for leasehold improvements is $25,000.

210.5.10. **Construction in Progress**

210.5.10.1. **Construction in Progress Definition** - Construction in Progress reflects the economic construction activity status of buildings and other structures, infrastructure (highways, energy distribution systems, pipelines, etc.), additions, alterations, reconstruction, and installation that are substantially incomplete.

210.5.10.2. **Depreciation Methodology** - Depreciation is not applicable while assets are accounted for as Construction in Progress. See appropriate capital asset category when asset is capitalized.

210.5.10.3.**Capitalization Threshold** - Construction is progress assets should be capitalized to their appropriate capital asset categories upon the earlier occurrence of execution of substantial completion contract documents, occupancy, of when the asset is placed into service.

Appendix A

Capital Asset Object Codes Effective September 1, 2002

ASSET CATEGORIES Per Capital Asset Guide	Capitalize/ Expense	Object Code Number and Title (New codes in bold)	Depr. In Years
Land	CAPITALIZE	56100 Real Property – Land, Easements, and Right of Way	N/A
	EXPENSE	54603 Other maintenance	
Buildings and Other Improvements	CAPITALIZE	56200 Buildings	10-60 Years
		56300 Building Improvements	
		56301 Other Improvements	
		56302 System Improvements (Utilities)	
	EXPENSE	54600 Building maintenance	
		54603 Other maintenance	
Infrastructure	CAPITALIZE	56330 Major Collector Road	25 years
		56320 Minor Collector Road	35 years
		56310 Local Road	50 years
		56340 Arterial Road	25 years
		56350 Bridges	35-75 years
	EXPENSE	54603 Other maintenance	
Utility Assets	CAPITALIZE	56304 Process Structures	30 years
		56305 Process Equipment	10 years
		56306 Pipelines and Appurtenances	50 years
	EXPENSE	54603 Other Maintenance	N/A

ASSET CATEGORIES Per Capital Asset Guide	Capitalize/ Expense	Object Code Number and Title (New codes in bold)	Depr. In Years
Equipment	CAPITALIZE	56400 Equipment	4-10 Years
		56401 Office Equipment	
		56402 Office Furniture	
		56403 Computer Equipment	
		56406 Equipment thru Donations - Main	
		56407 Equipment thru Donations – Ponte Vedra	
		56408 Equipment thru Donations - Hastings	
		56409 Equipment thru Donations- Bartram Trails	
		56410 Grant Equipment	
		56411 Exhibits	
		56412 Equipment thru Donations-Southeast Branch	
		56420 Trade-in allowance	
	EXPENSE	54601 Equipment maintenance	
		54602 Vehicle maintenance	
		54603 Other maintenance	
		55200 Operating supplies	

Library Books And Reference Materials	CAPITALIZE	56426 Library Collection	10 Years
		56421 Donated Collection - Main	
		56422 Donated Collection – Ponte Vedra	
		56423 Donated Collection – Hastings	
		56424 Donated Collection – Bartram Trails	
		56425 Donated Collection – Southeast Branch	
	EXPENSE	55205 Library Materials	

Works of Art and Historical Treasures	CAPITALIZE	56430 Personal Property – Works of Art and Historical Treasures	N/A

ASSET CATEGORIES Per Capital Asset Guide	Capitalize/ Expense	Object Code Number and Title (New codes in bold)	Depr. In Years
Software Computer	CAPITALIZE	56440 Personal Property – Proprietary Computer Software	5 Years
	EXPENSE	55200 Operating Supplies	
Leasehold Improvements	CAPITALIZE	56315 Leasehold Improvements	Balance of lease
	EXPENSE	54600 Building maintenance	