CAPITAL ASSETS PROCEDURE

APPROVED BY THE EXECUTIVE DIRECTOR
OF THE SOUTH FLORIDA WATER MANAGEMENT DISTRICT: 05/03/2011

DISTRICT CLERK'S OFFICE

Chapter 210 FINANCE

Article XIV. ASSETS

Division 2. CAPITAL ASSETS PROCEDURE

Sec. 210-330. General.

(a) This procedure is being issued to provide guidance to District staff in determining whether an expenditure represents:

(1) An acquisition of a capital asset;

(2) An improvement to an existing capital asset; or

(3) An operating expenditure.

(b) In addition, this procedure outlines how asset donations and impairments will be treated. The correct classification of expenditures is important for financial reporting purposes and for asset control and maintenance cost reporting.

Sec. 210-331. Purpose.

The purpose of this procedure is to ensure that the District properly classifies costs and donations for financial reporting purposes in a manner that is consistent with accounting principles generally accepted in the United States.

Sec. 210-332. Definitions.

For the purpose of this procedure, the following words and terms shall have the meanings respectively ascribed.

Asset System refers to a property unit that is composed of interdependent parts or sub-units acquired to be used together in normal operations. Asset systems are classified as either 1) group assets, or 2) component assets.

Capital Asset refers to real, personal, or intangible property that is owned by the District, has a cost or value that either meets or is less than the current State of Florida value threshold, and has an estimated useful life extending beyond one year. ~~Currently, the State of Florida's capital threshold is $1,000 for tangible assets.~~ The District records capital assets under the following categories:

District Asset Class, Categories, GL Accounts and Useful Life

Asset Class	*Capital Asset Category*	*G/L Account*	*G/L Description*	*Useful Life*	*Capitalization Threshold*
158000	Intangible Assets	~~158000~~ 170020	Intangible Assets	See Note[3]	$100,000
170010	Land	170010	Land	See Note[1]	CAPITALIZE ALL
170100	Buildings	170100	Buildings	40	$100,000
170110	Buildings Telemetry	170100	Buildings	20	$100,000
170120	Buildings Mobile Homes	170100	Buildings	10	$100,000
170200	Improvements Other Than Buildings	170200	Improvements	20	$100,000
170210	Improvements Leasehold	170200	Improvements	See Note[2]	$100,000
170220	Improvements Fencing	170200	Improvements	20	$100,000
170230	Improvements Facility Fuel Tanks	170200	Improvements	20	$100,000
170300	Equipment	170300	Equipment	15	$1,000
170310	Equipment Computer Hardware	170310	Equipment – Computer Hardware	5	$1,000
170320	Equipment Computer Software	170320	Equipment – Computer Software	5	$100,000 See Note[4]
170330	Equipment Furniture & Office	170330	Equipment – Furniture and Office	15	$1,000
170340	Equipment Water Measurement	170340	Equipment – Water Measurement	8	$1,000
170350	Equipment Communication	170300	Equipment	10	$1,000
170360	Equipment Generators	170300	Equipment	25	$1,000
170370	Equipment Telemetry System	170300	Equipment	10	$1,000
170380	Equipment Pumps	170300	Equipment	15	$1,000
170500	Vehicles Air	170500	Vehicles	10	$1,000
170510	Vehicles Airboat	170510	Boats	10	$1,000
170520	Vehicles Towboat	170510	Boats	15	$1,000
170530	Vehicles Utility Boat	170510	Boats	10	$1,000
170540	Vehicles ATV	170500	Vehicles	10	$1,000
170550	Vehicles Backhoe/Excavator/Bulldozer	170500	Vehicles	15	$1,000
170560	Vehicles Crane (Dragline)	170500	Vehicles	15	$1,000
170570	Vehicles Forklift	170500	Vehicles	15	$1,000
170580	Vehicles Grader/Loader	170500	Vehicles	15	$1,000
170590	Vehicles Tractor	170500	Vehicles	10	$1,000
170600	Vehicles Passenger Car	170500	Vehicles	6	$1,000
170610	Vehicles Passenger Van	170500	Vehicles	6	$1,000
170620	Vehicles Utility Vehicle / SUV	170500	Vehicles	7	$1,000

[3] If there are no factors that limit the useful life of an intangible asset, the intangible asset is considered to have an indefinite useful life.
[1] These assets are considered to have an indefinite useful life.
[2] The useful life of a leasehold improvement will be the shorter of the useful lives of the improvements or the term of the lease, whichever is shorter.
[4] When internally generated computer software development projects span more than one year, total project application development costs should be considered when applying the capitalization threshold, not outlays incurred in individual years.

Asset Class	*Capital Asset Category*	*G/L Account*	*G/L Description*	*Useful Life*	*Capitalization Threshold*
170630	Vehicles Truck, Pickup	170500	Vehicles	7	$1,000
170640	Vehicles Truck, Dump	170500	Vehicles	10	$1,000
170650	Vehicles Truck, Flatbed	170500	Vehicles	10	$1,000
170660	Vehicles Truck, Tractor (Semi)	170500	Vehicles	12	$1,000
170670	Vehicles Trailer	170500	Vehicles	15	$1,000
170680	Vehicles Mower	170500	Vehicles	10	$1,000
170690	Vehicles Miscellaneous	170500	Vehicles	10	$1,000
170800	Water Control Structures	170800	Water Control Structures	50	$100,000
170810	Bridges	170810	Bridges	50	$100,000
170850	Canals/Levees	170850	Canals and Levees	See Note[1]	$100,000
170900	Construction in Progress	170900	Construction in Progress	See Note[1]	$100,000 See Note[5]
170910	Land in Progress	170910	Construction in Progress – Land	See Note[1]	CAPITALIZE ALL

Boats refer to watercraft designed to float or plane, and provide transport over, water.

Bridges are structures that are built to span a river, a canal or any other physical obstacle.

Buildings are structures having a roof and partially or completely enclosed walls that are permanently attached to land and are not intended to be transportable or moveable.

Building Improvements are capital expenditures that extend the useful life of a building or increase the service capacity of a building, or both, beyond one year. Building improvements should not include maintenance and repairs done in the normal course of operations. Building improvements are recorded in the Buildings asset category.

Canals and Levees are considered infrastructure assets and recorded in the Canals and Levees asset category. Canals are artificial waterways constructed for navigation or irrigation. Levees are artificial embankments bordering a canal or river and are built to protect adjoining land from inundation. Canals and levees have an indefinite useful life.

Capital Improvement refers to an expenditure that is added to the cost of the asset (capitalized) because it represents an improvement made to an asset that extends the useful life of the asset beyond one year or significantly improves the efficiency of the asset.

Capital Lease refers to a lease agreement for property that meets any one of the following:

(1) The lease transfers ownership of the property to the lessee by the end of the lease term;

(2) The lease contains a bargain purchase option;

(3) The lease term is equal to 75% or more of the estimated economic life of the leased property; or

[5] Accumulate all costs and capitalize if over $100,000 when completed.

(4) The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90% of the fair value of the leased asset.

Component Asset is one of the categories of an Asset System. This refers to a property sub-unit classified as an individual fixed asset. This sub-unit is usually associated with a larger property unit.

Construction in Progress includes all partially completed construction projects. Buildings, water control structures and capital improvements under construction are the main components of this category. Upon completion of construction and placement into service, these assets are transferred from this category to the appropriate depreciable asset classification. Construction in Progress is not depreciated because the assets have not yet been placed into service.

Capitalizable Cost represents all the charges necessary to place an asset into service for its intended use. Charges include costs that are directly attributable to asset acquisition, such as the cost of the asset itself, freight and transportation charges, site preparation costs, professional fees, internal labor, and other necessary costs. The recorded cost of a donated asset is its estimated fair value at the time of acquisition plus ancillary charges, if any, as accepted by Fixed Asset Accounting.

Depreciation refers to the allocation of historical cost to specific time periods over the assigned useful life. It is not a method of valuation. Capital assets should be depreciated over their estimated useful lives unless they are 1) inexhaustible (i.e., land, canals, levees, or intangible assets having indefinite useful lives such as a permanent easement), or 2) construction in progress.

Disposition of a capital asset refers to the removal of the asset from District responsibility by sale or exchange, trade-in, donation, abandonment, or destruction.

Donation refers to a gift or contribution of real or tangible personal property.

Equipment refers to fixed or movable tangible assets to be used for operations, the benefits of which extend beyond one year from date of receipt and placement into service. Examples of equipment are machinery, computers, printers, office furniture, radios, water measurement devices and vehicles, etc. This category also includes computer hardware and software when the cost of the software is not separately stated.

Fair Value refers to the price that a buyer can expect to pay a seller for property in a fair and open negotiation. Typically the fair value of real property, such as land, is determined by professional appraisal. When a professional appraisal is not available, fair value may be estimated using factors such as the sale of comparable properties, county property appraiser valuations, and replacement cost.

Grant-acquired Asset refers to an asset acquired for a District project with third party funds having contractual restrictions. This excludes funding received from permits and fees.

Group Asset is one of the categories of an Asset System. This refers to multiple property sub-units, classified together as a single fixed asset, such as System Furniture. These sub-units are not practical to control on an individual basis. The life and usefulness of the individual sub-units is mainly dependent on the property unit as a group and not likely to be transferred. Group assets are recorded as a single asset in the fixed asset records.

Impairment of an asset represents a significant and unexpected decrease in the service utility of a capital asset that will continue to be used in operations.

Infrastructure refers to long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of Infrastructure include Bridges, Canals, Levees and Water Control Structures.

Intangible Asset refers to a non-financial asset that lacks physical substance. Examples of intangible assets are right-of-way easements, patents, copyrights, trademarks, land use rights and computer software (purchased, licensed or internally generated).

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-in-Progress includes costs associated with pending land acquisitions currently being pursued by the District.

Leasehold Improvement refers to improvements made to a leased asset that the District has the right to use over the term of the lease. This improvement will revert to the lessor at the expiration of the lease. Examples of Improvements include site improvements, gates, paving, sprinkler systems, signage, fencing and roadways.

Operating Expenditures refer to all expenditures that are not capital in nature.

Retirement of an asset refers to the removal of the asset from active use.

Water Control Structures represent all structures and related facilities designed, constructed or acquired for the purpose of water management and control. Water Control Structures include pump stations, culverts, weirs and gates. Along with Bridges, Canals and Levees, Water Control Structures are infrastructure assets.

Vehicle refers to any motor-driven conveyance (except a boat) designed to carry its operator. Examples of District vehicles include airplanes, helicopters, forklifts, tractors, passenger cars and trucks.

Sec. 210-333. Buildings.

(a) A building is one of the more common types of capital asset that will have component assets and ancillary charges associated with it. Costs capitalized to buildings include:

(1) Original purchase price.

(2) Expenses for remodeling, reconditioning, or altering a purchased building to make it ready to use for the purpose for which it was acquired.

(3) Environmental assessments.

(4) Professional fees (i.e. legal, architect, inspections, and title searches, etc.).

(5) Payment of unpaid or accrued taxes on the building to date of purchase.

(6) Cancellation or buyout of existing leases.

(7) Cost of building permits.

(8) Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building.

(9) Additions to buildings (i.e. expansions, extensions, or enlargements).

(10) Conversion of attics, basements, etc. to usable office, clinic, research or classroom space.

(11) Structures attached to the building such as covered patios, garages, enclosed stairwells, etc.

(12) Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents.

(13) Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing.

(14) Installation of windows or doorframes, upgrading of windows or doors, built-in closets, and cabinets.

(15) Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.

(16) Exterior renovation such as installation or replacement of siding, roofing, or masonry, etc. Note: Only an entire roof replacement is considered to be a capitalizable building improvement. Patchwork for specific areas of the roof is considered “maintenance” and is not to be capitalized.

(17) Installation or upgrade of plumbing and electrical wiring.

(18) Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, or wiring required in the installation of equipment (that will remain in the building).

(b) Examples of items to be considered maintenance and repairs and not capitalizable as buildings are:

(1) 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.

(2) Improvement projects of minimal or no added life expectancy and/or value to the building.

(3) Plumbing or electrical repairs.

(4) Cleaning, pest extermination, or other periodic maintenance.

(5) Interior decorations such as draperies, blinds, curtain rods, wallpaper, etc.

(6) Exterior decoration such as detachable awnings, uncovered porches, decorative fences, etc.

(7) Maintenance-type interior renovation such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections, sink and fixture refinishing, etc.

(8) Maintenance-type exterior renovation such as repainting, replacement of sections of deteriorated siding, roof, or masonry, etc.

Sec. 210-334. Component Assets.

(a) A component asset has a significant and separately identifiable cost associated with it and its life expectancy may differ from the other sub-units that make up the Asset System. For example, component assets to a building may include (but not limited to) heating, ventilation, air conditioning, electrical and plumbing.

(1) To the extent practicable each component of a Component Asset should be recorded as an individual asset and depreciated over its estimated useful life.

(2) If the components are included as an integral part of the larger capital asset and the cost of the component is not easily determinable then any replacements of the individual components should be considered maintenance and expensed when incurred.

(b) If the components are included as an integral part of the larger capital asset and the original cost of the component can be easily determined then the undepreciated balance of the component should be written off and the cost of the new component capitalized and depreciated over the remaining useful life of the capital asset.

Sec. 210-335. Computer Software.

Computer software is an intangible asset that is either purchased or internally developed and should be capitalized if it meets the capitalization threshold.

(1) Purchased computer software, including software license fees, should be capitalized if the total dollar amount of the fee divided by the number of units served (terminals) exceeds the capitalization threshold.

(2) For internally developed software, costs associated with the application development phase should be capitalized only if the costs were incurred subsequent to the preliminary project

stage. Costs associated with the preliminary project and the post-implementation/operating phases should be expensed as incurred.

(3) Costs to develop or obtain software that allows for access or conversion of old data by new information systems should also be capitalized.

Sec. 210-336. Construction in Progress.

Construction-in-progress (CIP) includes partially completed buildings, water control structures, equipment, improvements to existing capital assets, environmental restoration projects, or other assets that are being self constructed or we are having built by a third party**.** The following guidelines apply to construction-in-progress:

(1) The following criteria must be met before project costs can be charged to CIP:

a. The specific objective of the project has been determined.

b. The nature of the service capacity to be provided has been determined.

c. The feasibility of the project has been demonstrated.

d. The District has shown that it intends, is able, and is making an effort to develop/complete the project.

(2) All costs directly identifiable with the constructed asset should be capitalized.

(3) The Resource Area will capture the following costs related to constructed assets:

a. Contractual services;

b. Direct material;

c. Direct labor;

d. Other costs directly identifiable with a specific asset or project; and

e. Costs clearly related to the acquisition of capital assets but not for specific projects.

(4) The Resource Area will track all costs related to the Construction in Progress (CIP) so that the final cost of the constructed asset is correctly captured.

(5) The cost of constructing an asset will be recorded in General Ledger Account 170900 (CIP). CIP is not subject to depreciation.

(6) Accounting will transfer the accumulated costs from CIP to the appropriate capital asset account upon the earliest occurrence of:

a. Execution of substantial completion of contract documents;

b. Occupancy; or

c. When the assets are placed into service.

~~(2)~~(7) The Resource Area will be responsible for correctly identifying whether an expenditure related to a project will be capitalized using the following criteria:

a. Costs incurred to increase the efficiency of infrastructure assets (bridges, canals, levees and water control structures) should be considered capital improvements and therefore capitalized.

b. Costs incurred to increase the useful life of infrastructure assets, except for canals and levees, should be capitalized. Costs incurred to increase the useful lives of Canals and levees should be expensed because canals and levees are considered to have unlimited useful lives.

c. Any costs incurred to bring an infrastructure asset back to its original design state would be considered deferred maintenance and therefore not capitalized. For example, dredging a canal back to its design capacity is considered maintenance. Dredging a canal to increase the design capacity or efficiency would be considered an improvement and therefore should be capitalized.

d. Any costs incurred for environmental restoration projects should also be capitalized. Although usually described as “cleanup”, these costs may encompass a wide range of activities such as treating ground water and exhuming sludge and buried drums of waste. An environmental restoration may also involve bringing a river back to its natural state to improve the existence of flora and fauna in the surrounding areas.

e. The costs of training employees to utilize a newly acquired capital asset are not capitalizable.

(8) District project managers will notify Accounting when a constructed asset is completed and/or the assets are placed into service. In SAP Project Systems, the notification is part of the Closeout Process. If a project is not in SAP Project Systems, the project manager will notify Accounting via email when the project is complete.

Sec. 210-337. Depreciation.

Accounting will run depreciation as part of its monthly closing process using the following assumptions:

(1) Straight-line depreciation will be used starting with the month that the asset is placed into service by the District.

(2) Depreciation will stop in the month that the asset is taken out of service.

(3) Assets will be depreciated over the estimated useful life established for each capital asset by the District. Land, canals and levees are not depreciated.

(4) Leasehold improvements will be depreciated over the shorter of (1) the remaining lease term, or (2) the estimated useful life of the improvement.

(5) Annually Accounting will review a listing of fully depreciated assets and asset disposals to determine whether asset lives need to be adjusted.

(6) Intangible assets with indefinite useful lives will not be amortized unless their useful lives are subsequently determined to be no longer indefinite due to a change in circumstances. If changes in factors and conditions result in the useful life of an intangible asset no longer being indefinite, the intangible asset will be amortized over the remaining estimated useful life of the intangible asset.

Sec. 210-338. Donated Assets.

Donated assets are acquired without anything of significant value being given up for the donated asset. Following are the rules for accounting for donated assets:

(1) At the time of donation, Accounting will capitalize donated assets at fair value (or some reasonable approximation thereof) plus any ancillary charges incurred.

(2) Assets acquired for nominal amounts should be treated as donations for accounting purposes rather than recorded at their nominal cost.

(3) For assets donated by the U. S. Army Corps of Engineers (USACE), Accounting will use the USACE contract documents to determine the fair value.

(4) For donated land, Land Management will provide Accounting with property appraisals of the actual donated property. In their absence, property appraisals of adjacent property or assessed values of the donated property, based on County Tax Assessor records, may be substituted to determine what the District would have had to pay for the land.

(5) When the value of a capital asset is not practicably determinable, Accounting and the respective Resource Area will agree on an alternative method of cost valuation. Accounting will identify and document this in the District’s accounting records. In all cases this should be an approximation of what the District would have paid for the asset.

Sec. 210-339. Grant-Acquired Assets.

Grant contracts may call for grant-acquired assets to revert to the grantor should the District dispose of the assets. This reversionary interest does not impact the District’s ownership of the assets for financial reporting purposes. Accounting will ensure that assets purchased with grant funds are appropriately recorded and segregated in the fixed asset records.

Sec. 210-340. Leasehold Improvements.

Leasehold improvements are improvements made to leased property that the District has the right to use over the lease term. Examples of Improvements include site improvements, gates, paving, sprinkler systems, signage, fencing and roadways.

1. Accounting will capitalize the cost of leasehold improvements that meet the District's capitalization threshold.

2. Improvements revert to the lessor at the expiration of the lease.

3. Accounting will depreciate leasehold improvements as stated in the previous section.

4. Leasehold improvements do not have a residual value.

Sec. 210-341. Land and Land-In-Progress.

Land and Land-In-Progress will be accounted for in the following manner:

(1) Land is frequently associated with some other asset (building or water control structure). No matter how close the relationship may be, land should always be treated separately. Thus, land purchased to construct a water control structure should <u>not</u> be capitalized as part of the water control structure.

(2) Land is considered to have in infinite useful life. Therefore, the cost of land is not depreciated. However, if the use to which land is to be put is expected to significantly diminish the land's future utility (e.g., land to be used as a site for toxic waste disposal) depreciation may be necessary.

(3) Land is recorded at the purchase price plus associated costs. These associated costs include, but are not limited to, appraisals, surveys and closing costs, site preparation, site improvements and other costs that prepare the land for its intended use.

(4) Land-in-progress reflects capital costs incurred for land acquisitions anticipated in the near future. Upon closing on the property, these assets are transferred to Land. If a decision is made not to purchase land for which there are accumulated land-in-progress charges, then these costs must be written off at that time.

(5) Examples of costs to be capitalized as land include:

   a. Purchase price or fair value at time of gift, exchange or condemnation.

   b. Commissions.

   c. Professional fees (i.e. titles searches, architect, legal, engineering, appraisal, surveying, and environmental assessments, etc.).

   d. Land excavation, fill, grading, and drainage.

   e. Demolition of existing buildings and improvements (less salvage).

f. Removal, relocation, or reconstruction of property of others (i.e. railroad, telephone, and power lines, etc.).

Sec. 210-342. Purchased Assets.

All reasonable and necessary costs to put the asset into service for its intended use should be capitalized. Such costs include but are not limited to freight and delivery charges, installation and preparation costs, title fees, closing costs, and professional services.

Sec. 210-343. Operating Expenditures.

Operating expenditures typically include the expenses associated with running the day-to-day activities of the District. Operating expenditures are expensed as incurred. Examples include supplies, rent, fuel and utilities. In addition, operating expenditures include the following:

(1) Salaries of staff whose work is not directly related to the acquisition or construction of capital assets.

(2) General and administrative costs and overhead expenditures associated with software development should be expensed.

(3) Expenditures for tangible personal property that do not meet the minimum capitalization threshold.

(4) A capital lease that does not meet the capitalization requirements should be reported separately as an operating lease. Improvements made in lieu of rent should be expensed in the period incurred.

(5) All other expenditures not meeting the capitalization criteria will be considered operating expenditures and will be expensed in the year of purchase.

Sec. 210-344. Impairment of Capital Assets.

(a) Examples of potential impairment include physical damage, technological developments, and the stoppage of construction or development. The amount of the impairment of a capital asset should equal a portion of the book value proportionate to the asset's lost service utility. In order for an asset to be impaired the following criteria must be met.

(1) The asset will remain in service rather than be disposed.

(2) The impairment must be significant meaning that all of the expenses associated with the potentially impaired asset (i.e., continued operation and maintenance, depreciation, or costs associated with restoration) are significant compared to its current service utility. For impairments that do not result from physical damage this criterion is automatically met as soon as management takes action to address the potential impairment.

(3) The impairment must be unexpected meaning that the impairment is not part of the normal lifecycle of the asset and was not otherwise anticipated when the asset was acquired.

(4) The cost of restoring lost service utility should be capitalized as part of the cost of the asset thus restored. A temporary decline in service utility is not an impairment. The specific method used to calculate the impairment loss will depend upon the underlying event or circumstances that resulted in the impairment.

Sec. 210-345. Disposition of Capital Assets.

Capital assets that can no longer be economically utilized shall be disposed of in accordance with District policies. The method of disposition shall be in the best interest of the District and may include sale or exchange, trade-in, donation, abandonment, and destruction. Authority for dispositions shall be obtained from the Executive Director, or delegate. Lost and stolen assets shall be treated as de facto dispositions. The re-assignment of a capital asset (for instance, from one department or location to another) is a transfer and not a disposition. The retirement of a capital asset is not a disposition because the District still possesses the property.

Sec. 210-346. Clarification and Resolution.

For additional information or clarification on capitalization issues please contact the Accounting and Financial Services Division – Fixed Asset Accounting Group. Capital Asset Policy interpretation and final capitalization determination is the responsibility of the Director of Accounting and Financial Resources.