HARDEE COUNTY

MANAGEMENT & BUDGET POLICIES

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{The Purpose of this document is to establish minimum requirements for Hardee County for budget preparation and management. The Scope applies to all elected offices, divisions and departments. It also references Florida Statutes or other Hardee County policies that support sound budgetary development, maintenance, management and adoption. The Hardee County Board of County Commissioners (BOCC) has the authority and responsibility to adopt and oversee implementation of a budget approving the use of public funds for the operation of all County functions. It shall be the responsibility of all Elected Officials, Divisions, and Department Heads to ensure compliance with provisions of this Policy.}

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Section I. Financial Planning Policies

The establishment of financial policies enables the legislative body, management, and the community to monitor its performance. It also helps in linking long-range financial planning with day-to-day operations, and provides for financial emergencies thus improving fiscal stability. This contributes to the credibility and public confidence of the organization. To the credit rating industry and potential investors, such policies and statements show a commitment to sound financial management and fiscal integrity. Sound fiscal policies that are realistic and consistent provide useful guidance for the long term programming of services and facilities. They also provide a set of assumptions that allow for more accurate budget and tax decisions.

Budgets are vital tools for establishing public policy and maintaining control over the management of public resources. A budget specifies the resources expected to be available to cover the estimated expenditures for carrying out governmental programs and services. The annual operating budget is a financial document projecting revenues and setting forth expenditure to provide services for the fiscal year. The capital budget covers outlays for the acquisition of major long-lived assets, and the resources employed for purchase of those assets. The capital budget should reflect the County's Capital Improvement Program (CIP) which schedules projects over a five-year period and it should be consistent with the County's Long Range Planning.

The BOCC sets short-term and long-term goals, which are reflected in the budget. These goals are pursued through programs or services that the public sector can provide more efficiently than the private sector. To promote economic efficiency, the budget should allocate resources to the programs and services that generate the greatest benefits and result in the incremental benefit being greater than the incremental cost.

1. Budget Policies

The Hardee County budget is prepared in accordance with Generally Accepted Accounting Principles (GAAP). The accounts of the county are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that include its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled.

The main difference between accrual, and modified accrual accounting is the timing of the recognition of revenues. The County adopts budgets for all Governmental Funds and Expendable Trust Funds on a modified accrual basis. With modified accrual basis, revenues are recognized when they are earned, measurable and available; expenditures are recognized when the related liability is incurred. The budgets for Proprietary Funds are adopted on an accrual basis. With accrual basis revenues are recognized when they are earned and measurable; expenses are recognized when the related liability is incurred. For an expense to be incurred the item purchased must be received or the service purchased must be performed. Fund balance allocations (residual un-appropriated liquid assets resulting from prior years' operations) are budgeted and included as revenue.

A. Budget

Hardee County will operate on a fiscal year which begins on October 1st and ends on September 30th. The County's annual budget shall be balanced; that is, the total of the estimated receipts, including balances brought forward shall equal the total of the appropriations and reserves. (Florida Statutes, 129.01(2) (b)). Hardee County's budget conforms to all the laws of the State of Florida as they relate to the adoption, amendment, and control of the budget. In addition, all policies set forth in this document are designed to provide for and enhance the financial stability of the County.

B. Budget Development

The County's annual budget shall be adopted by the BOCC at a fund level. Each year the annual budget establishes the level of funding for each of the County's various funds. The goals and objectives, activities and service levels, are dictated by the level of funding and controlled by the budget. The budget serves as an operational guideline for County staff, and instructs the departments as staffing levels, amounts of operating appropriations, and capital purchases allowed. The first step in the development of the annual budget is to establish goals by working with the County Commissioners at a Planning and Goal Setting Workshop. Financial forecasts become guidelines for the basis of policy decisions developed to achieve the overall goals of the Board, while developing a financially sound budget.

C. Budget Guidelines

The budgetary process is oriented toward the full use of the system. Where possible, the County will continue to integrate performance measurements and/or productivity indicators that will allow for continued efforts to improve County programs. The Hardee County budgeting procedures attempt to identify distinct functions and activities performed by the County and to allocate adequate budget resources to perform these functions and activities at a specified level of service.

County Officials and staff will assume a status quo budget from year to year with only increases based upon justification or need. The budget will be reviewed with the Board and will focus on the following:

1) Program Changes - An increase in the service level will be detailed and defined as an enhancement. Where a decrease or a reduction in service level is proposed, it will be detailed for the Board as a defined reduction to a program.

2) New Programs - Proposed new programs will be identified as an enhancement and require detailed justification. Analysis is to include long-term fiscal impacts. When requesting a new program, all expenditures must be justified and a viable revenue source be identified to offset the cost.

3) Staffing – Staff levels will be consistent with the ability to support defined levels of services. Increases should be limited to program growth and should specifically require the addition of staff. Reduction of staff will be considered when there is no adverse effect on approved service levels.

D. General Budget Policy

The Board will annually adopt a balanced budget as their yearly fiscal operating and capital plan. The budget will balance expenditures with revenues and be adopted according to the established timetable of the Truth in Millage Act (TRIM).

The goal of the County will be to pay for all recurring expenditures with recurring revenues and use nonrecurring revenues for nonrecurring expenditures. If a deficit seems forthcoming, the Board will reduce appropriations or increase revenues or identify reserves to be utilized.

Therefore, it will be necessary for Officials and Department Heads to review and control expenditures such that the rate of expenditure does not exceed the approved budget.

The budgeted expenditures and reserves of each fund (including reserves for contingencies, balances to be carried forward, and all other purposes) will equal the sum of projected beginning balances for the fiscal year and all revenues that can be reasonably expected to be received during the fiscal year. In other words, the revenues and expenditures must be equal to present a "balanced budget."

An effort will be made to keep costs to their absolute minimum so as not to substantially increase the local tax burden.

The budgeted estimated receipts shall include a minimum of 95% of anticipated revenue proceeds. All other receipts reasonably to be anticipated shall be estimated by the OMB office based on the methodology most suitable for the individual revenue source. 100% of the estimated balance to be brought forward at the beginning of the fiscal year shall be included in the budget (Florida Statute 129.01(2)(c) (1)).

Authorization of expenditures of County funds will be adopted annually by the Board at the fund level.

The budget will provide for adequate maintenance of capital facilities, equipment and for the required replacement of equipment.

The County will continue to identify areas for evaluation efforts, by staff, committees, or consultants, to judge the effectiveness and/or efficiency of County services.

Never will the total number of permanent full-time/regular part-time employees on the payroll exceed the total number of positions specified by department and authorized by the Board in the adopted budget.

Directors and Department Heads shall coordinate with OMB to review all agenda items that affect the budget before being placed on the agenda.

The Annual Budget is an intricate part of maintaining the financial stability of the County and acts as the Financial Plan for directing the County in both long-range planning and everyday operations. It is essential that timely reports are generated to inform the BOCC and Management Staff of the County's financial progress. After the first and second quarter of each fiscal year, OMB will submit to the Board and the County Manager an overview report of the budget for actual revenues and expenses in all Funds and/or Departments. Any significant deviations or changes will be described in detail along with any necessary recommended corrective action. If any anomalies or problems are detected with trends or actual revenues and expenditures, then OMB will conduct a closer analysis. The OMB Director is required to inform the County Manager as soon as any adverse situations are identified.

E. Contingencies

A reserve for contingencies will be budgeted in each operating and capital fund in an amount not more than 10% of the total fund budget, for reallocation by the BOCC as needed to provide for unforeseen needs during the budget year (Florida Statute 129.01 (2)(c)(1)).

F. Fund Balance –

Prior to the end of the fiscal year each department/division will determine a good faith estimate of all encumbrances carried forward into the new fiscal year. These estimates will be incorporated into the forthcoming year's budget prior to its final adoption. Once the actual encumbrance is brought forward, any material amounts will be adjusted through a budget amendment.

Fund balances anticipated at the end of a fiscal year will be budgeted as the beginning fund balance for that fund for the upcoming fiscal year.

By definition a Balanced Budget is one in which anticipated revenues to be collected in one fiscal year are equal to or greater than the total anticipated expenditures for that fiscal year.

The committed but "unencumbered" balance of mutually agreed to multi-year and revolving projects and/or contracts not anticipated to be completed by September 30th must be re-budgeted in the subsequent fiscal year.

The County shall strive to maintain a fund balance range of 10% to 20% in each major fund and sufficient fund balances in all other funds to allow for adequate cash flow from one budget year to the next.

G. Budget Modification

All Budget modifications follow the rules set forth in Florida Statute 129.06.

In compliance with this statute, Hardee County has two (2) methods of budget modification. The annual budget can either be modified by resolution or budget amendment.
The purpose of this process is to adjust fund amounts to reflect the level of revenues reasonably anticipated to be received and to balance expenditures to these revenues according to state law and sound financial practices.

A budget resolution is processed for Board approval to recognize an unanticipated excess amount of an anticipated revenue and revenue from an unanticipated source. A resolution is also required when transferring revenues between funds. In general, a budget resolution with Board approval is required anytime the overall budgeted fund increases.

Hardee County has two (2) levels of budget amendments.

Any budget amendment that increases or decreases the total adopted budget must be approved by the Board. Any transfers from reserves or contingencies must be approved by the Board. Any increase of staffing levels must have Board approval. This also includes any transfer of positions from one department to another. Any material changes to the capital budget must have Board approval.

Any transfers from within a department or same fund must be approved by the OMB Director or his/her designee.

All requests for budget modifications must be submitted on a form entitled "Budget Amendment" and approved by the Department Head. They are then forwarded to OMB for review and approval. If required, they are forwarded to the next level for further approval.

2. Long Range Planning

Priority for the funding of new or expanded public services and facilities will first be given to those which are responding to capacity deficiencies within the County **or** to those which provide an inducement for development with the County **or** to those responding to a public health threat.

Section II Revenue Policies

1. Revenue

Hardee County will strive to maintain a diversified and stable revenue system to shelter it from short term fluctuations in any one-revenue source. OMB will estimate its annual revenues with an objective and analytical process. In the case of bond repayments, the use of revenues pledged to bondholders will conform in every respect to the bond covenants that they have been committed.

The Board and historic collection rates will dictate fee revenue amounts for purposes of budget preparation using adopted fee schedules.

County staff will continue to aggressively pursue grant funds. Revenues will be budgeted for current grants at anticipated grant award levels. The budget will be amended for new grants upon an award. Matching funds for federal and state grants will not exceed an aggregate match of 50% of the total income from these sources.

A. Revenue Summaries

As part of the annual budget process, a consolidated summary of revenue sources will be prepared and incorporated into the County's budget document.

B. Ad Valorem Taxes

The use of ad valorem tax revenues will be generally limited to the General Fund.

C. Gas Taxes

The use of gas tax revenues will be limited to the construction and maintenance of the county road system. The Transportation Trust Fund will be used to account for revenues and expenditures associated with these activities.

D. Sales Taxes

The use of sales tax revenues will be generally limited to the General Fund.

E. Grants

Only such grants as can reasonably be expected to be received will be considered as revenue sources for budget development purposes. The County shall amend its budget to reflect additional grants received during the budget year.

F. Restricted Revenues

Revenues, which have been pledged to bondholders, will be restricted and shall conform in every respect to bond covenants.

2. Fees and Charges

User fees, where appropriate, should be established to offset the cost of providing specific services, and will be reviewed annually

3. Use of One-time/Unpredictable/Non-permanent Revenues

Use of one-time revenues will be restricted for use on enhancements of capital equipment, improvements of existing facilities or funding reserves. One-time revenues should not be used for reoccurring expenses.

Section III. Expenditure Policies

1. Debt Insurance

The County shall contract with qualified consultants (bond counsel, financial advisor, independent accountants, etc.) to assist County Officials and staff in obtaining the most cost effective long term financing.

County Officials and staff may contact Florida Local Government Finance Commission for assistance and needs concerning short term debt.

Financing Parameters (Guidelines) – Projects will not be financed for greater than the useful life of the improvement. Whenever economically feasible, County Officials and staff will use revenue, special assessment or other self supporting bonds instead of general obligation bonds.

2. Fund Balance and Reserve Account

A. Fund Balance

The County shall strive to maintain the General Fund undesignated fund balance at 20% and no less than 10% of the current year's budgeted expenditures. When the undesignated fund balance drops below 10%, the County shall develop a strategy to return to a level of adequate fund balance. It is essential that an adequate level of fund balance be maintained for cash flow purposes and to mitigate current and future risks such as revenue shortfalls, changing economic conditions and unanticipated expenditures and catastrophic natural disasters.

B. Use of Fund Balance

Fund Balance shall be used only for emergencies and no-recurring expenditures. Should such use reduce the balance below the appropriate level set as the objective for that fund, Officials and staff shall develop and make recommendations on how to restore the desired balance.

C. Reserves

There are three primary types of reserves; operating, capital and debt. The degree of need for these reserves differ based upon the type of fund or operation involved. However, the one policy statement for each type of reserve can be uniformly applied to most funds. Board approval is required to move funds from a reserve account into an expenditure line.

1. Operating reserves are commonly known as contingencies. It is the goal of the County to maintain adequate undesignated reserves in all County operating funds to provide a buffer against revenue fluctuations and unforeseen emergencies.
2. Capital reserves are established primarily to set aside funds to provide for additional projects, or additions to existing budgeted projects, which may be deemed appropriate for funding after the annual budget is adopted. They may also be utilized for establishing a machinery and equipment replacement program.
3. Debt reserves are established to protect bondholders from payment defaults. Adequate debt reserves are essential for maintaining good bond ratings and the marketability of bonds. The amount of debt reserves is established by bond indenture in associate on with each bond issuance.
4. These policies statements are intended to apply to various funds of the County. It is recognized that various federal, state, and local laws and regulations and specific financial policies, may supersede these policies.

3. Capital Improvement

A. Five Year Plan

County Officials and staff will develop a five-year Capital Improvement Plan as part of each year's annual budget process, and will make all capital improvements in accordance with the adopted annual County budget. County Officials and staff will identify the estimated cost and potential funding sources for each capital project before it is submitted to the BOCC as a component of the five-year plan.

B. Operating Cost

The cost of operating and maintaining all proposed projects will be identified and incorporated into a five-year financial projection for operations.

C. Renewal and Replacement

County Officials and staff shall develop and implement a program for identifying, scheduling and budgeting the renewal and replacement requirements of capital equipment and facilities.

4. Non-profit Charitable Contributions - As part of its annual budget process, County Officials and staff may identify amounts to be granted to various community agencies, which provide valuable services to the County's residents.

   A. All requests for funding should be made through the normal budget process and should include the services and benefits provided to county residents.

   B. The Board may disapprove or delay all requests made outside of the normal budget process

   C. Request for funding during the fiscal year shall be referred to the OMB or the County Manager for administrative review and analysis of the financial impact.

Section IV. Management & Control of Accounts Receivables

Proper controls over revenue are important to ensure strong financial management practices. This policy applies to all revenue collected, except where state or federal laws supersede.

1. Internal Controls

All aspects of cash receipts and accounts receivable shall be subject to proper internal controls. Officials and management of each department shall be familiar with the Revenue Policy and establish standard internal controls that are properly documented and followed by staff members to ensure compliance with the policy. Recommended internal controls shall include:

- Segregation of duties for authorization, recording, and custodian functions. In circumstances where this is not feasible, other mitigating procedures shall be established, documented and approved by OMB.
- Daily processing of cash receipts and accounts receivable transactions.
- Timely deposit of funds as approved by Board and the Clerk of Courts.
- Timely reconciliation to the general ledger and other supporting accounting ledgers.
- Utilization of automated system resources for enhanced processing and reconciliation.
- Establishment of physical security procedures, which shall be reviewed periodically.

- Notification of Officials, management and internal audit upon any suspicion of fraud. Officials and management shall then notify the appropriate authorities (e.g., law enforcement, state agencies) in a timely manner for further investigation.

- Periodic review by internal audit of internal control compliance. If management has any suspicion regarding non-compliance with internal control directives, OMB shall be notified.

2. **Accounting Practices**

All receipts and receivables shall be recorded in keeping with current authoritative standards and practices.

- Revenue shall be recorded in the proper general ledger account.

- Revenues shall be recorded in the proper fiscal accounting period.

3. **Billing Practices**

Accounts receivables shall be established for services provided in advance of payment.

- All initiated Invoices shall have a due date of 21 days from the invoice date, unless otherwise stated per ordinance or resolution. All Invoices shall be generated within 35 days after initial service provision.

- When services are provided by the department prior to the receipt of funds for such services, an on-going accounts receivable record shall be maintained.

- Invoices shall be generated in a centralized accounts receivable system wherever possible. When bills are generated from a stand alone system, the receivable shall be recorded in the accounts receivable system that is transferred to the central general ledger and reconciled to the general ledger within 30 days of the close of the fiscal accounting period.

4. **Depositing of Received Funds**

Treasury management shall serve as primary recipient for all revenue collection sites. Each department with remote collection responsibility shall establish and maintain an adequate system of internal controls for receipts. Controls shall include, at a minimum, the following:

- Numerically controlled (accounting system generated or paper) official receipts with the printed name of the department for all revenue. Receipt books issued by the government must be accounted for numerically. The use of generic non-numbered receipts is strictly prohibited;

- The method of payment (e.g. cash, check or credit card) shall be indicated on the receipt;
- Identification of the individual receiving payment on receipt;
- Wherever possible, the receipt shall allow for immediate revenue account classification in conformance with the established chart of accounts. If not possible, the department and fund shall be indicated;
- Restrictively endorsement (stamped for deposit only) of checks at the point and time of collection;
- Reconciliation of collections by an individual not involved in the receipting or posting process or establishment of mitigating controls;
- Recording of receipts in the financial accounting system on a timely basis;
- Timely posting of adjustments with supervisory approval required;
- Timely reconciliation and deposit of funds received

    a) Remote Sites (those sites remote from the primary treasury function)

        1) Dollar Threshold: At any such point a remote collection site accumulates in the aggregate over $10.00 in cash and/or $10.00 in checks; such funds shall be deposited by the beginning of the next business day.
        2) Time Threshold: All collections shall be deposited within five business days of receipt.

    b) Those sites in close proximity to the primary treasury function shall make daily deposits;

- Securing of un-deposited funds in a locked place, such as a safe or secure drawer;
- Accounting of any differences in the cash reconciliation process in a "cash overage/shortage" account. The change drawer shall not be used for the difference;
- Prohibition of use of change drawer to cash personal checks.

5. Escrowed Funds

Funds received by the entity in advance of revenue recognition or funds anticipated to be remitted back to the payee shall be deposited into an interest earning escrow liability account.

- Escrowed funds shall only accrue interest back to the payee if explicitly stated in the escrow agreement; otherwise interest accrues to the associated fund.

- Upon the entity meeting the criteria for revenue recognition, such escrowed funds shall be transferred in a timely manner and recognized as revenue in the applicable fund.

- For performance guarantee escrows, funds shall be returned to the payee upon compliance or transferred to the applicable fund for non-compliance.

6. Collection

Each department shall establish and maintain an adequate system of internal controls to ensure that receivables are collected in a timely manner.

- All accounts receivable shall be recorded by the entity to permit an analysis of the aging of such receivables (e.g., <30 days, 30-60 days, etc.).

- For those accounts that become past due, proper delinquent notice shall be provided to the payee and continued service restricted, unless continuation of service is required by law or policy, until such accounts are current.

- For those accounts that are greater than [# of days] days past due and over$[dollar amount], notice and supporting detail shall be provided to the appropriate collection division for further collection efforts.

- To facilitate collection efforts, departments shall establish information criteria as part of the initial credit application process with the customer (e.g., bank account number, social security number or driver's license number, federal ID number, etc.).

- Assignment to a collection agency shall be considered. When cost effective, the government-wide selected collection agency shall be utilized to assure maximum collections.

7. Returned Checks

Each department shall establish and maintain an adequate system of internal controls for returned checks.

- Unless otherwise stated per ordinance or resolution, all checks returned due to insufficient funds shall be processed by the Clerk of Court ~~treasury division~~ with departmental assistance.

- Fees shall be charged for the returned check in accordance with applicable statutes or established practices. Returned checks shall be processed at least twice through the entity's financial institution.

8. Bad Debt

Each department shall establish and maintain an adequate system of internal controls to ensure the accurate and timely recognition of an allowance for doubtful account and bad debt expense.

- The amount of the allowance for doubtful accounts shall be based upon the percentage of receivable method.

- The computation of the allowance for doubtful accounts shall be performed annually based upon the aging of the receivables and recent history of write-offs at fiscal year end, subject to concurrence by the external auditors.

- Write-offs -

    1) Non-tax balances
    2) For uncollected balances that are greater than 365 days delinquent, all such amounts shall be eligible for write-off upon department head's written concurrency and departments due diligence to collect the debt.
    3) For balances greater than $100.00, collection efforts shall be performed for a period equivalent to the statute of limitations or less if bankruptcy has been discharged for account, business no longer exists, or individual is deceased, at which point such amounts shall be written-off upon department head's written concurrence.
    4) For any account written-off, such customer information shall be retained for as long as practical in an automated system to have continued enforcement of service denied on credit until previously written-off balances have been satisfied.
    5) Write-offs to taxpayer's account for general property tax balances shall be performed in accordance with state regulations.

9. Budgetary Review Responsibility

Revenue collections and accounts receivable shall be monitored in a timely manner.

- Revenue initiating departments shall have oversight in the formulation of revenue budgets.

- Revenue budget estimates shall be supported with documented variable assumptions (base, rate, etc.).

- Monitoring of revenue budget shall be performed in a timely manner throughout the fiscal year and shall include an analysis of actual vs. budgeted variances. Revised forecast shall be communicated to the budget division timely.

- Continued compliance of revenue with all laws and/or regulations shall be the responsibility of the revenue initiating department.

Section V Asset Management

Hardee County's Asset Management Policy has been prepared in conjunction with Generally Accepted Accounting Principles (GAAP), Governmental Accounting Standards Board (GASB 34) and (GASB 51), Chapter 274 of the Florida Statutes, and reference Chapter 10.400 Rules of the Attorney General. Included in this policy are asset class definitions, capitalization threshold, depreciation methodologies, examples and guidelines of expenditures for each class of assets.

I. Capital Asset Definition, Classes and Capitalization Thresholds

Capital assets are real or personal property that have a value equal to or greater than the capitalization threshold for their respective asset class and have an estimated initial useful life of greater than one year. Hardee County reports the following asset classes:

- Land
- Buildings and Building Improvements
- Infrastructure
- Equipment
- Intangible Assets
- Books
- Lease Purchased Assets
- Construction in Progress
- Leasehold Improvements

Capitalization thresholds have been established as follows:

Asset Classification	Threshold
Land	Capitalize All
Buildings/Building Improvements	$1,000
Infrastructure	$1,000
Equipment	$1,000
Intangible Assets	$1,000
Library Books	All books for Library usage (no leases)
Lease Purchased Assets	Use Threshold for appropriate class
Construction in Progress	Use Threshold for appropriate class
Leasehold Improvements	Use threshold for appropriate class.

1. Cost of a Capital Asset

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. Items to include in the cost of a capital asset are as follows:

- Original contract or invoice price
- Freight and transportation 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
- Cost of reconditioning used items when purchased
- Parts and labor associated with the construction of equipment
- Site preparation cost
- Professional fees
- Capitalized interest should be included in the cost of a proprietary fund asset when it meets the criteria of Governmental Accounting Standards Board No. 34

Cost of extended warranties and/or maintenance agreements, which can be separately identified from the cost of the equipment, should not be capitalized.

Donated capital assets, including donated right-of-way, should be reported at their estimated fair value at the time of acquisition plus ancillary charge, if any.

2. Depreciation of a Capital Assets

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

- Inexhaustible (such as land)
- Construction in progress

Hardee County uses straight-line depreciation.

$$\frac{\text{Cost - Salvage value}}{\text{Estimated Service Life (in years)}}$$

Capital assets have no residual value at the end of their lives.

3. Disposition of Capital Assets

When a capital asset is disposed of, a gain or loss must be recognized. A gain is reported when proceeds received are greater than the net book value of the asset. A loss is reported when the net book value is greater than the proceeds received. When proceeds received are equal to the net book value of the asset, a gain or loss is not reported.

4. Capital Asset Classification

A. Land and Land Improvements

Land refers to the surface or crust of the earth, which can be used to support structures and roadways, and may be used to grow crops, grass, shrubs, and trees. Land is characterized as having an unlimited life; it is an inexhaustible asset and therefore is not depreciated.

Land Improvements are those betterments, improvements, and site preparations that ready land for its intended use. Like the land itself, these improvements are inexhaustible and therefore not depreciated.

Examples of expenditures to be capitalized as land or land improvements are as follows:

- Purchase price or fair market value at time of gift
- Commissions
- Professional fees (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)
- Accrued and unpaid taxes at date of purchase

B. Buildings and Building Improvements

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 movable. Buildings are generally used to house persons, property, and fixtures attached to and forming a permanent part of such a structure.

Examples of items to be capitalized as buildings are as follows:

- Original purchase price and any other cost associated with getting the building ready for use
- All project cost associated with the original construction of a building improvements to existing building that materially extend the useful life of a building, increases the value of a building, or both should be capitalized. The improvement must meet one of the following criteria:
  - The improvement adds square footage to the existing building
  - The improvement is a major renovation that prepares an existing building for a new use
  - The improvement expenditure increases the life or value of the building by 25 percent of the original life or cost.

Replacement of an original utility would qualify if the new item/part is of significantly improved quality and higher value compared to the old item/part. Replacement or restoration to original utility level would not. Determination must be made on a case-by-case basis.

Examples of expenditures to be capitalized as building improvements are as follows:

- Replacement of an old shingle roof with a new fireproof tile roof
- Upgrade of heating and cooling systems
- Structures attached to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing

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

- Adding, removing and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value or life of the building
- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Interior decoration, such as draperies, blinds, curtain rods, wallpaper
- Maintenance-type interior renovations, 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 new one of the same type and performance capabilities

C. Infrastructure

Infrastructures are 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. Improvements made to infrastructure that materially extend the useful life, increase the value of the infrastructure, or both by 25 percent of the original life or cost should be capitalized.

Improvements and additions which extends the useful life of an asset beyond its original estimated useful life, and/or increase the capacity or efficiency of the asset, should be capitalized and depreciated. A change in capacity increases the level of services 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 level of service but at a reduced cost. For example, a heating and cooling plant could be reengineered so that it produces the same temperatures changes at reduced cost. The cost of additions and improvements should be capitalized.

Expenditures to be capitalized as infrastructure include, but are not limited to:

- Roads and streets including peripherals such as landscaping, curbs, gutters, sidewalks and streetlights, when incorporated into the construction project
- Bridges and retaining walls
- Signals and Signage
- Fencing and gates
- Landscaping
- Parking lots/driveways/parking barriers
- Parks (excluding land) including peripherals such as playground equipment, athletic fields and courts, pavilions, paths and trails, benches and gazebos, when incorporated into the construction project
- Recreation areas and athletic fields (including bleachers)
- Paths and trails
- Swimming pools, tennis courts, basketball courts
- Plazas and pavilions
- Boat docks and ramps
- Storm water drainage improvements
- Water and sewer utility plant, piping and equipment
- Roadway resurfacing
- Water and wastewater transmission and distribution systems

D. Equipment

Equipment includes fixed or movable tangible assets to be used for operations, the benefits of which extend beyond one year from date of acquisition and meet the capital threshold.

Examples of expenditures to be capitalized as equipment include but are not limited to:

- Machinery and tools
- Vehicles for on and off road use
- Information technology
- Fire, EMS equipment
- Kitchen, Maintenance equipment

E. Intangible Assets

GASB 51 refers to intangible assets as those that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period.

Examples include:

- Computer Software
- Water and timber rights
- Patents and trademarks
- Easements

Computer software that is either purchased or internally developed should be capitalized and amortized if costs exceed the capitalization threshold. Capitalization of computer software includes software license fees if the total dollar amount of the fee divided by the number of units served (terminals) exceeds the threshold.

For internally developed software, only costs associated with the application development phase, limited to the actual design, installation and testing of the software, should be capitalized. Costs associated with the preliminary project and the post –implementation/operating phases should be expensed as incurred. Costs to develop or obtain software that allows for access or conversion of old data by new information systems should also be capitalized. General and administrative cost and overhead expenditures associated with software development should not be capitalized.

Easements are interests in land owned by another that entitles its holder to a specific limited use. A right-of-way is a type of easement in which title remains with the property owner and therefore is not capitalized.

The estimated value of easements is immaterial and therefore will not be capitalized.

F. Lease Purchased Assets

Assets 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 or greater than 75 percent of the estimated economic life of the leased property

A lease that does not meet any of the above capitalization requirements should be recorded separately as an operating lease and reported in the notes to the financial statements.

G. Construction in Progress

Construction in Progress reflects the economic construction activity status of buildings and other structures, infrastructure, additions, alterations, reconstructions, installation, and maintenance and repairs which are substantially incomplete.

Construction in progress assets should be capitalized to their appropriate capital asset class upon the earlier occurrence of execution of substantial completion contract documents, occupancy, or when the asset is placed into service.

H. Lease Hold Improvements

Lease hold improvements are 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. Moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement. Leasehold improvements do not have a residual value.

Leasehold improvements are capitalized only if they revert to the lessee at the expiration of the lease. If capitalized, they are amortized over the shorter of either: (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 term or useful life of the improvement, whichever is shorter.

APPENDIX TABLE OF CONTENTS:

Sample Cash Receipting Checklist

Note: This document should not be used as a substitute for developing a Revenue Procedure specific to your department's unique needs. The information below is a list of topics that are suggested to be addressed in a Revenue Procedure.

- ☐ **Internal Controls**
  - ☐ Segregation of duties
  - ☐ Reconciliation of receipts and accounts receivable to the general ledger
  - ☐ Physical security procedures
  - ☐ Maximize utilization of automated system resources
  - ☐ Fraud notification
  - ☐ Internal audit periodic review

- ☐ **Accounting Practices**
  - ☐ Recording in proper account
  - ☐ Recording in proper fiscal accounting period

- ☐ **Billing Practices**
  - ☐ Timing of bill production
  - ☐ Timing of bill due dates
  - ☐ Establish an accounts receivable record
  - ☐ Maintain an accounts receivable record

- ☐ **Depositing of Received Funds**
  - ☐ Data to appear on the receipt
  - ☐ Timing of receipt recordation
  - ☐ Timing of deposit of funds
  - ☐ Reconciliation of collections
  - ☐ Physical security of un-deposited funds
  - ☐ Escrowed Funds

- ☐ **Collection**
  - ☐ Analyze aging of receivables
  - ☐ Timing of delinquent notice issuance
  - ☐ Establish collection responsibilities

- ☐ **Returned Checks**
  - ☐ Processing details
  - ☐ Associated Fees

- ☐ **Bad Debt**
  - ☐ Establish method of calculation
  - ☐ Timing of calculation
  - ☐ Write-off criteria

- ☐ **Budgetary Review Responsibility**
  - ☐ Assign oversight responsibility
  - ☐ Budget estimate shall include written support
  - ☐ Monitoring shall be performed timely
  - ☐ Compliance with laws and regulations

ADOPTED this 20th day of March, 2014

HARDEE COUNTY, FLORIDA

By: Rick Knight

Rick Knight, Chairman
Board of County Commissioners