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Owner:	*Dhannetta Brown: Deputy CFO*
Policy Area:	*Management & Budget*
References:	

Capital Asset Management and Disposal of Surplus Assets Policy

POLICY

It is the policy of Detroit Wayne Mental Health Authority (DWMHA) to establish guidelines and procedures governing the control and reporting of capital assets in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments. The provisions of this policy apply to capital asset purchases. All assets purchased or obtained through grants or professional allowances are the property of the Authority, even if located off Authority property unless otherwise specified by the grant agreement.

PURPOSE

The purpose of this policy is to establish the capitalization threshold for the acquisition, use, reporting and transfer/disposal of capital assets owned by the Detroit Wayne Mental Health Authority (Authority).

APPLICATION

1. The following groups are required to implement and adhere to this policy: DWMHA Board, DWMHA Staff
2. This policy serves the following populations: Adults, Children, I/DD, SMI/SEI, SED, SUD, Autism
3. This policy impacts the following contracts/service lines: MI-HEALTH LINK, Medicaid, SUD, Autism, Grants, General Fund

KEYWORDS

None

STANDARDS

I. CAPITALIZATION THRESHOLD

Expenses will be capitalized when the following criteria are met:

- The asset is tangible or intangible in nature, complete in itself, and is not a component of another capitalized item.
- It does not lose its identity through fabrication or incorporation into a different or more complex unit (for

example, a computer installed in a sheriff's vehicle).
- The asset is used in the operation of the Authority's activities.
- The asset has a useful life of one (1) year or more and provides a benefit throughout that period.
- The individual cost of the item is $5,000 or more.

The following table depicts the estimated useful life of each capital asset category:

Land and Land Improvements	20 Years
Buildings and Building Improvements	5-50 Years
Machinery and Equipment	5-25 Years
Office Equipment and Furniture	5 Years
Computer Equipment	5 Years
Systems	5-20 Years

The capitalization threshold is established to encompass at least 80% of the value of all non-infrastructure assets. The threshold is applied to individual capital assets rather than to groups of capital assets (e.g., desks, tables, chairs, etc.)

Specific assets costing less than $5,000 may be tagged and controlled but will not be capitalized for financial reporting purposes. These items, referred to as "controlled assets", include assets costing less than $5,000 and include certain audio and video devices such as computers, printers, scanners, videocassette recorders, televisions, projectors, camcorders, and digital cameras. Each user division may wish to maintain a current log of these assets for internal control purposes. These controlled assets, which are not capitalized, should be charged to the proper non-capital object codes in the accounting system.

The Division of Management and Budget (M&B) in conjunction with the Division of Information Technology (IT) are responsible for maintaining an accurate inventory of the Authority's capital assets and will adhere to the provisions of this policy.

Capital assets acquired by the Authority are recorded at cost. Cost is equal to either the amount paid for the asset or the fair market value of the asset, if it has been donated. Fair market value is defined as the most probable price, which a property should bring in a competitive and open market under conditions requisite to a fair sale; the buyer and seller are each acting prudently and knowledgeably, and the price is not affected by undue influence.

In addition, ancillary costs associated with preparing the asset for its intended use are capitalized. Some ancillary costs that may be incurred by the Authority are described in the following sections. Certain other costs, however, are excluded from capitalization.

In general, costs relating to the removal or demolition of buildings, structures, equipment or other facilities are not capitalized.

Examples of items not capitalized are:

- Costs incurred on assets that are not purchased, e.g., surveying, title searches, legal fees and other expert services on land not purchased
- Extraordinary costs incidental to the construction of capital assets such as those due to strike, flood, fire or other casualties
- Costs of abandoned construction

Examples of items that are capitalized are:

- Costs to remove or demolish a building or other structure existing at the time of acquisition of land when the intention of the removal or demolition is to accommodate the land's intended use (such cost needs to be considered part of the land)
- Costs to remove or demolish a building or other structure with the intention of replacing the old asset (such costs needs to be considered a part of the cost of the new building)

II. CAPITAL ASSET CATEGORIES

Capital assets include the following major classes: Land and land improvements, buildings and building improvements, machinery and equipment, office equipment and furniture, systems, construction work-in-progress and leased assets. Each of these classes are defined and discussed below.

A. Land and Land Improvements
Land purchased or otherwise acquired by the Authority is reported at cost, or, if donated, at fair market value at the time of donation. The asset class of land includes site preparation costs required for its intended use.

Land improvements are improvements to a site that permit the intended use of the site. Examples include assets such as paving, fencing, concrete walks and steps, outside lighting, outside plumbing, irrigation systems, signs, flagpoles, miscellaneous sheds, walls, and fountains. The amount capitalized is the actual cost of installation and/or acquisition of these assets at the acquisition date, including any labor and installation fees.

Land costs to be capitalized include (not all-inclusive):

  - Original contract cost and related expenses such as broker's commission and legal fees for examining and recording ownership
  - Cost of ownership guarantee insurance policies
  - Cost of real estate surveys
  - Cost of razing old buildings, structures, or other improvements acquired with the property
  - Cost incurred to put property in condition for its intended use, including draining, clearing, land filing, and grading costs
  - Assumption of liens or mortgages
  - Judgments levied through suits
  - Closing fees, such as title search and legal fees

Exclusions: Excluded costs are the fees for ownership searches, expenditures in connection with disposal of refuse, costs of utility easements, and repairs to other improvements.

B. Buildings and Building Improvements
Buildings are permanent structures housing persons or personal property.

Building improvements (including leasehold improvements that meet the criteria described in Section (G) are long-lived renovations to buildings that significantly increase the building's life, usefulness, or value. Building improvements cannot be separated from the building. Building improvements may include asset improvements or replacements to building components such as elevators.

Building and building improvements costs to be capitalized include (not all-inclusive):

- Original purchase price of construction
- Expenses incurred in remodeling, reconditioning, or altering a purchased building to make it suitable for the purpose for which it was acquired, cost of excavation, grading or filling of land as part of the construction of a specific building
- Expenses incurred for the preparation of plans, specifications, blueprints, etc., cost of building permits, architects and engineers fees for design and supervision
- Other costs such as temporary buildings used during the construction period that are not movable or reusable and are razed at the end of construction
- Insurance costs and interest costs during construction phase

Additionally, the following items are included as part of the building cost (not all inclusive):

- Built-in casework
- Built-in shelving
- Built-in public address systems
- Carpeting and tile
- Plumbing, sprinkler, heating, ventilating and air conditioning systems
- Emergency generator systems for building support
- Intrusion alarm systems
- Fire alarm systems
- Emergency lighting system

When a building is purchased, an allocation must be made by an appraiser between the land, land improvements and the building. The Division of M&B will arrange for an appraisal to be conducted by an outside appraiser every five years.

Donated buildings and building improvements are reported at fair market value at the time of donation.

Exclusions: Costs that are excluded are extraordinary costs that are merely incidental to the erection of the building (such as costs incurred due to strike, flood, fire, or other casualty), and the cost of abandoned construction.

C. Machinery and Equipment
Machinery and equipment includes property that does not lose its identity when removed from its location. Examples of machinery and equipment differ, but some examples include tractors, mowers, scanners, compressors and generators. Tools such as wrenches, hammers and screwdrivers are excluded unless the individual cost is $5,000 or more.

Equipment costs to be capitalized include (not all-inclusive list):

- Original invoice cost
- Freight, import duties, handling and storage costs
- Specific in-transit insurance premiums
- Assembling and installation costs

- Costs for testing and preparation for use
- Reconditioning costs related to used equipment to make it available for its intended use

All costs incurred after acquisition but prior to placing machinery and equipment in service to make it ready for use, are considered to be part of the cost of the asset. Examples include:

- Adding auxiliary equipment to a vehicle (e.g. emergency vehicles)
- Installation and testing of radios, antennas and other communications devices
- Installation and testing of electronic equipment
- Painting and application of logos, signage, etc.

Exclusions: Trade-in allowances and salvage values.

D. Office Equipment & Furniture
Office equipment and furniture will be capitalized if the cost of an individual item is $5,000 or more. Care must be made to identify items that are either a part of a system, such as a telephone system or network (refer to Section E below). Assets that meet these criteria will be bar code tagged and inventoried by the Division of IT. Office equipment includes:

- Copy machines
- Printers
- Document scanners
- Computer hardware
- Computer software

Computer software must be capitalized whether purchased (normally a user license is purchased) or created in-house. All associated costs are to be included for the in-house software including contractors' costs.

E. Systems
Many assets consist of multiple components that make up the asset. An asset system has the following characteristics:

- Consists of multiple property subunits which function together as a single capital asset.
- Individual subunit costs are generally not significant in comparison to the total cost of the entire system.
- Normally, individual subunits would not meet the capitalization criteria. The grouping as a whole, however, qualifies as a capital asset ($5,000 acquisition cost, one year useful life, etc.).
- When a subunit is replaced, it generally does not extend the life of the larger asset. Therefore, replacement would generally be treated as maintenance expense.
- Any component, with a cost greater than the capitalization thresholds, subsequently added to a system needs to be capitalized as a part of the entire system.
- Each subunit is integrated and configured in such a way as to make identification of individual components difficult. Therefore, it is impractical to tag, track, and inventory each sub-unit.

Asset systems are to be capitalized if the composite cost equals or exceeds the Authority's $5,000 reporting threshold. Examples of asset systems include: telephone systems, security systems, building sprinkler systems, certain office systems, and communication networks.

F. Capital Projects and Construction Work-in-Progress

A fixed asset module is used to account for the construction of a capital asset. As construction progresses, the cumulative expenses are recorded by project. Upon completion of the capital asset, the balance in the construction-in-progress account is transferred to the appropriate account(s) such as building or equipment. Projects that have reached 100% completion are transferred. Projects that have not reached 100% completion will continue to be tracked as construction-in-progress. Interest costs incurred during the construction period are subject to capitalization as part of the cost of construction when conditions identified by Financial Accounting Standard Board Statement No. 34, "Capitalization of Interest Costs" exist.

Construction work-in-progress (CWIP) includes amounts expensed on an incomplete building, infrastructure or other capital construction projects. Capital assets that are available for use on September 30 of any year are to be re-classified as buildings and improvements, land improvements, infrastructure, or equipment, based upon the nature of the constructed asset(s).

Construction-in-progress costs to be capitalized include (not all-inclusive list):

- Contractor's fees
- Freight and transportation costs
- Professional fees attributable to the construction
- Interest cost

G. Leased Assets

All user divisions must send a copy of every lease agreement to the Chief Financial Officer (CFO) for evaluation. Upon entering into a lease, the user division should request that the vendor provide all the information necessary to determine if the leased asset is a capital or operating lease. The Division of M&B will determine whether the lease meets the criteria to be recorded as a capital lease and will generate the appropriate journal entries. Therefore, for all leases of assets with a fair market value of $5,000 or more, it is necessary to evaluate this possibility at the inception of a lease so the transaction is recorded properly. If there are any changes in the terms of the lease agreement, or in the disposition of the asset, such as a transfer, exchange, return to the vendor, etc., the CFO should be notified.

Lease agreements that meet any of the following criteria must be capitalized:

- The lease transfers ownership of the asset to the Authority 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 equals or exceeds 90 percent of the fair market value of the asset to the lessor at the inception of the lease. The Authority shall compute the present value of the minimum lease payments using its incremental borrowing rate, unless:
    1. It is practical for the Authority to learn the implicit rate computed by the lessor and
    2. The implicit rate computed by the lessor is less than the Authority's incremental borrowing rate. If both of those conditions are met, the Authority shall use the implicit rate.

Minimum lease payments are the payments that the Authority is obligated to make or can be required to make in connection with the leased asset.

III. ACCOUNTING FOR CAPITAL ASSET ACTIVITY

The capital asset transactions described below will be recorded in the Authority's fixed assets system. This system is the official system for the recording of capital asset activity. Although user divisions may use other tracking systems for items below the Authority's capitalization threshold for control purposes (refer to Section I, Capitalization Threshold, for a discussion of controlled assets), the fixed assets system will be the official system used for financial statement reporting.

A. Acquisitions

- A capital asset is acquired through purchase (with or without trade-ins), self-construction, leasing, donation, or through a business combination (two separate entities become one).
- All acquisitions are made using the Authority's existing purchase requisition/purchase order system.
- The Division of IT will affix a capital asset bar code tag on each new purchase of machinery and equipment, computers, furniture and office equipment.
- The asset record is added to the capital assets system including the class code, life, and cost.
- Any addition (meeting the asset class capitalization level $5,000) to a capital asset should be capitalized since a new asset has been created. For example, the addition of a wing or the addition of an air conditioning system to a building increases the service potential of that facility and should be capitalized. Other examples of additions include: an elevator or dumbwaiter, fire alarm systems, security system, windows, and sprinkler systems.
- When the Authority utilizes internal staff, resources, equipment, and/or materials to construct a building or piece of machinery, fixture, software, furniture or equipment for its own use, which meets the capitalization criteria ($5,000), an acquisition cost will be established and the asset will be recorded in the fixed asset system. All direct costs, including materials and labor costs are included in the total cost of the asset. Overhead (indirect) costs are not included unless they were incrementally increased by the construction of the asset.

B. Improvements and Replacements
The distinguishing feature between an improvement and a replacement is that an improvement is the substitution of a better asset -- having superior performance capabilities -- (e.g., a concrete floor for a wooden floor) for the one currently used, whereas a replacement is the substitution of a similar asset (a wooden floor for a wooden floor). In both of these instances, the user division should determine whether the expenditure increases the future service potential of the capital assets, or merely maintains the existing level of service. When the determination is made that the future service level has been increased, the new cost is to be capitalized. The division should seek the assistance of the Division of M&B if uncertain.

C. Repairs (Ordinary and Major)
Repairs maintain the capital asset in its original operating condition. Ordinary repairs are expenditures made to maintain assets in operating condition. Preventive maintenance, normal periodic repairs, replacement of parts, structural components, and other activities such as repainting, equipment adjustments, that are needed to maintain the asset so that it continues to provide normal services should not be capitalized but rather charged to an expense account. Examples of ordinary repairs include: roof and/or flashing repairs, window repairs and glass replacement, paintings, masonry repairs and floor repairs. Major repairs are relatively large expenditures that benefit more than one operating cycle or

periods. If a major repair, e.g., an overhaul, occurs that benefits several periods and/or extends the useful life of the asset (over one year), then the cost of the repair should be capitalized.

D. Retirements and Disposals

A capital asset is considered disposed of or retired from service when it is no longer available for use, such as through sale (auctions), trade-in, exchange, lease expirations, donation to others, obsolescence, abandonment, or theft. For assets that are disposed of through auction and proceeds are obtained, the Division of M&B will record any applicable gain or loss.

Prior to consideration of an asset to be disposed of, the user division should determine whether or not another division is using the asset periodically and ensure that the operations will not be detrimentally impacted by the removal of the asset. The asset should remain in its current location until a final destination is determined.

User divisions are responsible for notifying the Division of M&B of the retirement of a capital asset or the termination of a lease where the asset is returned. The amount of proceeds received on any sale of an asset should be clearly identified. The Capital Asset Property Record Retirement/Disposal Form will be used to document all disposals and retirements.

Notification will include:

- Bar code tag number
- Asset description
- Serial or VIN number – if applicable
- Location code
- Business unit
- Reason for disposal/retirement
- Date of disposal/retirement
- Name and phone number of the person initiating the retirement

The appropriate supporting documentation must be attached to the capital assets retirement/disposal form, including bill(s) of sale, police reports (stolen property), and authorization memos (for all other forms of disposal). All disposal forms must be approved by the Division Director, Assistant Director, or designated management staff. The Division of M&B will inactivate the capital asset in the fixed assets system after all the appropriate documents have been recorded.

The sale, transfer, or disposal of computer equipment and software can create information security risks for the Authority. These risks are related to potential violation of software license agreements, unauthorized release of confidential information, and unauthorized disclosure of trade secrets, copyrights, and other intellectual property that might be stored on the hard disks and other storage media. The transfer/disposal of surplus technology items will require the review and authorization of the Chief Information Officer (CIO), or his/her designee. Any sale of surplus property can be made for cash, check or money order; however, no credit shall be extended. Under no circumstances will an asset be disposed of or sold privately by any employee of the Authority.

IV. DEPRECIATION

Depreciation is the systematic and rational allocation of the historical cost of a capital asset over its useful life. Certain inexhaustible assets, such as land and CWIP are not depreciated.

Depreciation is calculated using the straight-line method. The basis used in straight-line depreciation is the acquisition cost. Annual depreciation is calculated by dividing the basis by the useful life. The total amount depreciated can never exceed the acquired cost, less any salvage value if applicable. The depreciation convention used is monthly in the year of acquisition. This means depreciation is taken from the beginning of the month in which the asset is acquired.

The fixed assets system will calculate depreciation on a monthly basis using the straight-line method. A full months' depreciation will be charged regardless of the date of acquisition.

V. CAPITAL ASSETS FINANCIAL REPORTING

The Division of M&B will determine the appropriate accounting and reporting treatment for all capital asset transactions. User divisions shall consult with the Division of M&B on all matters relating to capital asset reporting disclosures.

VI. PHYSICAL INVENTORIES

A physical inventory of capital assets will be performed either simultaneously or on a rotating basis, so that all of the Authority's tangible capital assets are physically accounted for at least once every five years. The Division of M&B or IT, at its discretion, may perform physical inventories of machinery and equipment, computers, furniture and office equipment at more frequent intervals. When performed, the physical inventory counts/observations and reconciliations will be completed by September 1st.

QUALITY ASSURANCE/IMPROVEMENT

DWMHA shall engage an independent auditor to provide reasonable assurance that the financial reporting controls of the Authority are reliable and prepared in accordance with Generally Accepted Accounting Principles along with the Authority's adherence to this policy.

COMPLIANCE WITH ALL APPLICABLE LAWS

DWMHA staff are bound by all applicable local, state and federal laws, rules, regulations and policies, all federal waiver requirements, state and county contractual requirements, policies, and administrative directives, as amended.

LEGAL AUTHORITY

1. 2 CFR 225 - Cost Principles for State, Local and Indian Tribal Governments
2. Generally Accepted Accounting Principles (GAAP)
3. Governmental Accounting Standards Board (GASB)

RELATED POLICIES

1. Comprehensive Budget Policy
2. Fiscal Control & Accountability Policy
3. Procurement Policy

RELATED DEPARTMENTS

1. Administration
2. Compliance
3. Information Technology
4. Legal
5. Management & Budget
6. Purchasing

CLINICAL POLICY

NO

INTERNAL/EXTERNAL POLICY

INTERNAL

Attachments:

Capital Asset Property Record Retirement/ Disposal Form

Approval Signatures

Approver	Date
Dana Lasenby: Acting Chief Executive Officer	01/2018
Allison Smith: Project Manager, PMP	01/2018
Lorraine Taylor-Muhammad: Director, Managed Care Operations	01/2018
Eric Doeh: Compliance Officer	01/2018
Rolf Lowe: Assistant General Counsel/HIPAA Privacy Officer	01/2018
Michele Vasconcellos: Director, Customer Service	01/2018
Bessie Tetteh: CIO	01/2018
Mary Allix: Director of Quality Improvement	01/2018
Jody Connally: Director, Human Resources	12/2017
Kip Kliber: Director, Recipient Rights	12/2017
Michael Rangos: Director of Procurement	12/2017
Julia Kyle: Director of Integrated Care	12/2017
Brooke Blackwell: Communications Director	12/2017
crystal Palmer: Director, Children's Initiatives	12/2017
Darlene Owens: Director, Substance Use Disorders, Initiatives	12/2017
Maha Sulaiman: Director of Utilization Management	12/2017
Corine Mann: Chief Strategic Officer/Quality Improvement	12/2017

Approver	Date
Jean Alce: Interim Medical Director	12/2017
Andrea Smith: Director of Clinical Practice Improvement	12/2017
William Sabado: Chief of Staff	12/2017
Donna Coulter: Dir. of OPA	12/2017
Stacie Durant: CFO Management & Budget	12/2017
Dhannetta Brown: Deputy CFO	12/2017

Detroit Wayne Mental Health Authority

Capital Asset Property Record
Retirement / Disposal Form

NOTE: Please refer to the Capital Assets Policy/Procedure for complete information on the accounting for all capital assets.

Date acquired	Purchase price		Brass tag number

Disposal Date	Disposal Type (For Purchasing Division use only)	Reason For Retirement/Disposal
	☐ Sale by Tender ☐ Sale by Auction ☐ Sale at Negotiated Price ☐ Dispose/Discard	☐ Impaired / Non-functional (attach explanation) ☐ Damaged ☐ Environmental Safety / Health Hazard ☐ Replaced ☐ Lease Expiration ☐ Other (attach explanation)

Capital Asset Category (check one)	Year Manufactured (if applicable)	Model # (if applicable)
☐ Machinery and Equipment ☐ Cars and Trucks ☐ Furniture and Office Equipment ☐ Computer Equipment ☐ Other (attach description) ________	Make/Manufacturer (if applicable)	Description of Asset

Department/Division/Sub Unit	Serial Number/Vehicle Identification Number	Bar Code Number
Fund Business Unit Asset Before Disposal	Object Account Location of (Building Name/Floor/Yard)	Location Code (See Policy)

Contact person & telephone #

Required attachments (Retirement or disposal report)

Explanation of disposal and amount of proceeds received (if any)

________________________ ________________
Name of Preparer and Title Date

________________________ ________________
User Department Authorization Date

________________________ ________________
Purchasing Director Authorization Date

________________________ ________________
Chief Information Officer * Date
*Required for computer equipment and peripherals only.

Please send the completed form within two (2) weeks of the asset disposal to: DWMHA M&B Division, 4th Floor, 640 Temple Street, Detroit, Michigan 48201.

Date: January 2014