

2000 DHS CAPITAL ASSET SYSTEM POLICY

I. Purpose

This policy establishes a uniform Capital Asset System and is applicable to all DHS divisions, offices, and their subordinate organizations.

II. Responsibility

DHS shall keep and maintain a record of all property of the agency belonging to the State of Arkansas in accordance with the Arkansas Department of Finance and Administration's (DFA) [Financial Management Guide, Subchapter 15-Property and Equipment Inventory](#). Employees may refer directly to the DFA's [Capital Asset Guidelines](#).

DHS will maintain a perpetual inventory of capital assets on the Arkansas Administrative Statewide Information System (AASIS). It is imperative that DHS maintains documentation of all capital assets accurately and consistently.

III. Policy

- (a) A "capital asset" is defined as real, personal or intangible property that has a value equal to or greater than the capitalization threshold (detailed below) and has an estimated life of greater than one year. Capital assets include: land, land improvements, buildings, building improvements, leasehold improvements, construction in progress, equipment, infrastructure, easements, works of art, historical treasures and any other tangible or intangible assets used in operations with an initial useful life in excess of one year. State capital assets are broadly classified as follows:

<u>Asset Class</u>	<u>Threshold</u>
Land	Capitalize All
Land Improvements	\$5,000
Easements	Capitalize All
Buildings/Building Improvements	\$100,000
Leasehold Improvements	\$5,000
Equipment	\$5,000
Equipment – Low Value	\$ 2,500 - \$ 4,999.99
Equipment – Low Value High Risk	\$500 - \$2,499.99
Equipment – Low Value Collective	(See note below)
Works of Art/Historical Treasures	\$5,000
Works of Art/Historical Treasures – Low Value	\$0 - \$4,999.99
Library Holdings	Capitalize All
Other Tangible/Intangible Assets	\$5,000
Other Tangible/Intangible Assets – Low Value	\$2,500 - \$4,999.99
Internally Generated Software	\$1,000,000
Infrastructure	\$5,000
Capital Leases	\$5,000
Asset under Construction	Not Applicable

- (1) Assets that are easily susceptible to pilferage shall also be included in either Low Value Equipment or Low Value High Risk Equipment depending on value. These items will include, but not limited to, laptop computers, guns, camera equipment, video equipment, printers, tools, cell phones, handheld radios, binoculars, and any others that are easily susceptible to loss or theft. Other Tangible/Intangible Assets – Low Value does not include purchased software licenses.
- (2) “Equipment – Low Value Collective” consists of groupings of smaller like items that would not individually meet the equipment threshold of \$2,500.00 per item required for the Equipment – Low Value class.

Capital Asset Acquisition Cost

- (b) Capital assets shall be recorded and reported at their historical costs. Historical cost include the vendor’s invoice (less the value of any trade-in), plus sales tax, initial installation cost (excluding in-house labor), modifications, attachments, accessories or apparatus necessary to make the asset usable and render it into service. Historical costs also include ancillary charges such as freight and transportation charges, site preparation costs and professional fees.
 - (1) The book value of assets recorded at historical costs should never be increased to reflect appraised value, insurance value, replacement cost, etc.
 - (2) Capital assets may include leased assets. For guidance on leases of tangible personal property (equipment), refer to R1-19-11-238. Refer to R1-22-2-114 for guidelines on leases of office space, buildings, structures, parking lots and grounds.
 - (3) All new acquisitions shall be promptly added to the detail of capital assets and all items transferred, lost, stolen, destroyed, or sold must be promptly removed from the detail of capital assets.

Equipment

- (c) Equipment is defined as fixed or movable tangible assets to be used for operations with an acquisition cost or fair market value at time of acquisition of \$5,000 or greater with an expected useful life of greater than one year. Equipment previously carried on the department’s books with an acquisition cost or fair market value of less than \$500 will continue to be carried accordingly even though the value is less than the current threshold. Acquisition costs consist of cost of the item, sales tax, freight or shipping cost, and installation for the item.
 - (1) Costs of extended warranties and/or maintenance agreements which can be separately identified from the cost of the equipment should not be capitalized.

Equipment – Low Value and Low Value High Risk

- (d) Equipment – low value asset class will be utilized for tracking equipment with a useful life of one year or more and an initial value of at least \$500 but not more than \$4,999.99. Assets under \$2,500.00 may be expensed unless the asset is easily susceptible to pilferage and those items must be recorded in the Equipment –Low Value High Risk category:

\$500 - \$2,499.99. This asset class is only used for tracking purposes and not for the capitalization of equipment.

- (e) Examples of expenditures to be capitalized as “Equipment” include: original contract or invoice price; freight charges; handling and storage charges; sales, use and other taxes imposed on the acquisition; installation charges; costs of reconditioning used items when purchased; parts and labor associated with the construction of equipment.
 - (1) Personal computers will be tracked in the assets management system of AASIS using the CPU. Peripheral equipment, i.e., printers, scanners and furniture of significant purchase value, will only be tracked in the assets management system of AASIS if the item’s acquisition cost or fair market value at time of acquisition is more than \$500 and less than \$4,999.99.
 - (2) All laptop computers.
 - (3) Handheld, portable communications equipment and photography equipment with an acquisition cost or fair market value greater than \$500.
 - (4) State owned motor vehicles shall be recorded and maintained in the capital asset records of the State Financial Management Guide. Refer to R1-19-4-903 for additional information on motor vehicles.

Improvements to Land

- (f) Land improvements are defined as attachments to the land that have limited lives and therefore are recorded separately and are depreciable. Procurements, whether singly or cumulatively, with an acquisition cost or fair market value of \$5,000 or greater will be capitalized (minimum threshold value is based on the cumulative total of the project). Examples include, but are not limited to, fencing and gates, parking lots/driveways/, outside sprinkler systems, septic systems, retaining walls, lighting systems and water impoundment structures or attachments (dam, liner, other water control structures). Procurements of less than \$5,000 will be expensed.

Buildings or Similar Structures, New Construction

- (g) A Building is defined as 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 mobile.
- (h) Examples of expenditures to be capitalized as Buildings (purchased); original purchase price; expenses for remodeling, reconditioning or altering a purchased building to make it ready to use for the purpose for which it was acquired; environmental compliance (i.e., asbestos abatement); professional fees (sales commission, legal, architect, inspection, appraisal, title search, etc.); payment of unpaid or accrued taxes on the building at the date of purchase; cancellation or buyout of existing lease on the building; other costs required to place or render the asset into operation.
- (i) Examples of expenditures to be capitalized as Buildings (constructed): completed project costs; cost of excavation or grading or filling of land *for a specific building*; expenses

incurred for the preparation of plans, specifications, blueprints, etc.; cost of building permits; professional fees (architect, engineer, management fees for design and supervision, legal); costs of temporary buildings used during and for the construction; unanticipated costs such as rock blasting, piling, or relocation of the channel of an underground stream.

Improvements to Existing Buildings or Similar Structures

- (j) Building Improvements are defined as capital events that increase the value of a building, materially extend the useful life of a building or both. A building improvement should be capitalized as a sub-asset of the building and recorded as an addition of value to the existing building if the expenditure for the improvement is at the capitalization threshold and the expenditure increases the life or value of the building by 25 percent of the original life period or cost.
- (k) Examples of expenditures to be capitalized as Building Improvements:
- (1) conversion of attics, basements, etc., to usable office, clinic, research or classroom space;
 - (2) structures *attached* to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.;
 - (3) installation or upgrade of heating and cooling systems, including ceiling fans and attic vents;
 - (4) original installation/upgrade of wall or floor covering such as carpeting, tiles, paneling, or parquet;
 - (5) structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing;
 - (6) installation or upgrade of windows or door frames, upgrading of windows or doors, built-in closets and cabinets;
 - (7) interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.;
 - (8) exterior renovation such as installation or replacement of siding, roofing, masonry, etc.;
 - (9) installation or upgrade of plumbing or electrical wiring; installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, wiring required in the installation of equipment (that will remain in the building);
 - (10) permanently attached fixtures or machinery that cannot be removed without impairing the use of the building;
 - (11) additions to buildings (expansions, extensions, or enlargements); or,
 - (12) other costs associated with the above improvements.
- (l) Buildings/Building Improvement procurements, whether singly or cumulatively, with an acquisition cost or fair market value of \$100,000 or greater will be capitalized (minimum threshold value is based on the cumulative total of the project).
- (1) For a replacement to be capitalized, it must be a part of a major repair or rehabilitation project, which increases the value, and/or useful life of the building by 25% of the original cost or life. A replacement may also be capitalized if the new item or part significantly improves the quality and or value of the asset as compared

to the old item or part such as replacement of an old shingle roof with a new fireproof tile roof (CI 11). Replacement or restoration to original utility level would not (CI 02). Determinations must be made on a case by case basis.

Leasehold Improvements

- (m) Leasehold improvements are defined as improvements made to leased property that will revert to the lessor at the expiration of the lease. Leasehold improvements include 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.
- (n) Leasehold Improvements procurements, whether singly or cumulatively, with an acquisition cost or fair market value of \$5,000 or greater made to improve a leased building or similar structure will be capitalized (minimum threshold value is based on the cumulative total of the project). Procurements not meeting these criteria or if less than \$5,000 will be expensed.

Land and Land Improvements

- (o) Land is defined as the surface or crust of the earth, which may be used to support structures or grow crops, grass, shrubs, and trees. Land is characterized as having an inexhaustible life. All expenditures made to acquire land and to ready it for its intended use should be considered as art of the land cost,
- (p) Examples of expenditures to be capitalized as Land: purchase price or, if donated, fair market value at time of donation; commissions; professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.); permanent landscaping such as land clearing, excavation, fill, grading, drainage (includes movement of earth in preparation for water impoundment); demolition of existing buildings and improvements (less salvage); removal, relocation, or reconstruction of property of others on the land so that the land may be used differently (railroad, telephone and power lines); interest on mortgages accrued at date of purchase; accrued and unpaid taxes at date of purchase; other costs incurred in acquiring the land; water wells (includes initial cost for drilling, the pump and its casing); right-of-way.
- (q) Land procurements, whether singly or cumulatively, will be capitalized regardless of acquisition cost or fair market value.
- (r) Land Improvements are defined as attachments to the land that have limited lives and therefore are recorded separately and are depreciable.
- (s) Examples of expenditures to be capitalized as Land Improvements: fencing and gates; landscaping of temporary nature; parking lots/driveways/parking barriers/roadway; outside sprinkler systems; recreation areas & athletic fields (including bleachers); paths and trails; septic systems; fountains; plazas, pavilions; retaining walls; lighting systems; water impoundment structures or attachments (Dam, Liner, other water control structures)

- (t) Land Improvement procurements, whether singly or cumulatively, with an acquisition cost or fair market value of \$5,000 or greater will be capitalized (minimum threshold value is based on the cumulative total of the project).

Intangible Assets

- (u) Intangible assets are defined as assets that have no physical characteristics but are of value because of the advantages or exclusive privileges and rights they provide to the State. Intangible assets generally arise from exclusive privileges granted by governmental authority or by legal contract, such as patents, copyrights, franchises, trademarks and trade names, and leases. Internal-use computer software should be capitalized as an intangible capital asset and amortized over its anticipated useful life. Capitalization of computer software includes software license fees if the total dollar amount of the fee divided by the number licenses issued meets the criteria to capitalize the purchase. Internally generated intangible assets should be capitalized. Internally generated is defined as an asset that is created or produced by the government or an entity contracted by the government or it is acquired from a third party but requires more than minimal incremental effort on the part of the government to begin to achieve the expected service capacity. Commercially available software should be considered internally generated if it has been modified using more than minimal incremental effort before being put into operation. For internally developed software, only those costs incurred during the development stage would be capitalized (e.g. activities involving the design of the software, coding, installing and testing). Training and maintenance will not be included as part of the capitalized cost.

Infrastructure

- (v) Infrastructure is defined as assets that are long-lived capital assets that are stationary in nature and normally preserved for a significantly greater number of years than most capital assets. Infrastructure assets are usually part of a larger system of assets, such as roads, bridges, tunnels, water and sewer systems.
- (w) As with buildings and equipment improvements or additions to existing infrastructure that constitute a capital outlay or increase the value or life of the asset by 25 percent of the original cost or life or increase the asset's capacity or efficiency should be capitalized and recorded as sub-asset of the existing asset. Additionally, costs to preserve an infrastructure asset to extend the useful life of an asset beyond its original estimated useful life, but do not increase the capacity or efficiency of the asset should be capitalized and recorded as sub-asset of the existing asset.
- (x) Maintenance allows an asset to continue to be used during its originally established useful life. Maintenance costs are expensed in the period incurred.
- (y) Example of expenditures to be capitalized as Infrastructure: roads, streets, curbs, gutters, sidewalks, fire hydrants; dam, drainage facility; radio or television transmitting tower; electric, water and gas (main lines and distribution lines, tunnels); fiber optic and telephone distribution systems (between buildings; signage).

- (z) Procurements, whether singly or cumulatively, with an acquisition cost or fair market value of \$5,000 or greater will be capitalized (minimum threshold value is based on the cumulative total of the project).

IV. Capital Leases

- (a) A capital lease is a lease that transfers substantially all the benefits and risk of ownership of the leased property to the department. Leases where present values are greater than \$5,000 for equipment and \$5,000 for other assets will be capitalized only if one or more of the following conditions are met:
 - (1) The lease transfers ownership of the property at the end of the lease term.
 - (2) The lease contains a bargain purchase option that is an option to purchase that makes exercising the option a near certainty.
 - (3) The lease term is equal to at least seventy-five (75) percent of the estimated depreciable life of the property.
 - (4) The present value of the property at the beginning of the lease is ninety (90) percent or greater of the fair market value of the leased property. Present value is defined as the total of lease payments less cumulative interest and executory costs for the term of the lease.

V. Asset under Construction (CI 502:00:02; 506:00:10)

- (a) Asset under construction reflects the economic construction activity status of buildings and other structures, infrastructure (highways, energy distribution systems, pipelines, etc.), additions, alterations, reconstruction, installation, and maintenance and repairs which are substantially incomplete.
- (b) The asset under construction should be capitalized to its appropriate capital asset category upon the earlier occurrence of substantial completion, occupancy, or when the asset is placed into service.
- (c) Internally Generated Software. Assets under construction also include internally generated software in process. Procurements, whether singly or cumulatively, with an acquisition cost or fair market value of \$1,000,000 or greater will be capitalized (minimum threshold value is based on the cumulative total of the project).

VI. Methods of Finance

- (a) All new construction or renovating projects that meet minimum Arkansas Building Authority (ABA) and capitalization guidelines of the preceding paragraphs require that a Method of Finance form (DFA 0015) be initiated by the DHS Division.
- (b) The MOF will include: full estimates of cost, locality, cost center, internal order, appropriation, and fund code associated with the project. The MOF will be submitted to

the DHS Office of Finance for processing, through the DHS CFO, and to DFA for approval.

- (c) After obtaining requisite approvals of the Method of Finance and establishing required records in AASIS, the approved Method of Finance will be returned by the Central Support Unit who will also forward the budget request to the Office of Finance.
- (d) Upon receipt of the approved Method of Finance, procurement activities may begin via AASIS requisition transactions. Procurement transactions will be parked in AASIS databases for subsequent review and approval by the DHS Office of Finance.

VII. Depreciation

- (a) Generally Accepted Accounting Principles require capital assets to be reported and depreciated over their estimated useful life in the government-wide financial statements. Capital assets that are inexhaustible are not depreciated.
- (b) The purpose of depreciation is to spread the cost of the asset over the asset's economic life. The straight-line depreciation method will be used to calculate depreciation. Depreciation data will be calculated and stored by AASIS for each eligible asset. DHS shall have a GASB 34 compliant fixed asset system to record fixed assets and calculate depreciation data. Accumulated depreciation shall be summarized and posted to the accounting general ledger of the State Financial Management System.
- (c) DHS shall utilize the estimated useful lives outlined in the useful life appendix P2-19-4-1503. DHS shall annually evaluate the estimated useful lives assigned to their assets to ensure depreciation is spreading the cost of the asset over the asset's economic life. If the current estimated useful life varies more than one year from the estimated useful life assigned to the asset, the agency shall request approval from DFA-OA to change the estimated useful life. Upon approval, the estimated useful life of the asset will be changed and the related accumulated depreciation and depreciation expense will be adjusted on a prospective basis.

VIII. Donations, Transfers, Turn-Ins

- (a) When donated items meet asset capitalization guidelines, the Division will provide the following information to the DHS Asset Manager:
 - (1) correspondence from donor that states they wish to donate the asset to DHS;
 - (2) the fair market value of the asset;
 - (3) the effective date of the donation; and,
 - (4) contact information of the donor.

The Asset Manager will coordinate the asset donation with the Division and DFA.

Asset Transfer Outside DHS

- (b) Assets may be transferred to other state agencies or donated to local governments, school districts, private agencies and/or individuals with the approval of the DFA Director.

- (1) Asset Transfer to Other State Agency. Submit to DHS Asset Manager: (1) a written request that includes reason for transfer and (2) a DFA, Office of Accounting, *Asset Transfer/Change/Retirement Request Form*. The completed form must be signed by sending and receiving agency CFOs. Upon approval by the DHS CFO, the form will be submitted to DFA for approval. DFA will complete asset transfer transaction and will forward approval notification to sending and receiving agencies.
- (2) Asset Donation to Local Government, School District, Private Non-profit Agency, Individual. Submit a written request to DHS Asset Manager who will review request and forward to the DHS CFO for approval. The request should include reason for the donation, the asset number(s), description of the equipment and the name of the organization (and contact individual) to which the equipment will be donated.
- (3) When notified of DFA's approval, the DHS Asset Manager will notify the requesting unit. Transfer of the asset(s) to the receiving agency will be done by DFA. To provide an audit trail of the disposition of the equipment and/or property, a written agreement between Division and the recipient will be provided to the DHS Asset Manager. No DHS equipment should be removed from DHS until DFA's approval is received.

Asset Turn-In

- (c) Excess or non-utilized assets in all DHS offices will be transferred to the DHS Distribution Center for re-issue or salvage. See DHS Administrative Procedures Manual, Chapter 709, Excess Equipment policy. Excess equipment/assets in all DHS offices will be transferred to the DHS General Services Unit (GSU) for re-issue or salvage. The DHS Distribution Center will be responsible for the turn-in of assets that are no longer needed by the department to State Marketing and Redistribution (M&R). DHS Arkansas State Hospital, Arkansas Health Center, Division of Youth Services facilities, and Division of Developmental Disabilities' Human Development Centers may transfer unneeded assets directly to M&R.

IX. Asset Retirement/Deactivation

- (a) The DHS Agency Asset Manager will retire/deactivate assets (capital & low-value) when provided documentation by the division. The documentation must be retained for audit purposes.
- (b) Documentation required for retirement/deactivation:
 - (1) Assets that have been turned in to State M&R require:
 - Surplus Disposal Form (SDF) from M&R (copy showing receipt)
 - DHS Form 1912, Asset Deactivation
 - (2) Assets that have been lost, stolen or destroyed require:
 - DHS Form 1036, Missing Asset Investigation Report, to include police report for stolen items

(3) Assets that have been traded-in for another asset require:

- Letter from DFA approving Trade-in

(4) Assets that have been transferred to another department require:

- DHS Form 1006 Inventory Transfer, signed by transferring & receiving parties

(5) Assets that have been given/donated to a private organization require:

- Letter from division director giving title of asset/assets to organization
- DHS Form 1006 Inventory Transfer, signed by transferring & receiving parties

(6) Assets that have been created in error or are a duplicate of another asset require:

- Letter or e-mail describing error or showing proof of duplication

X. Standards for Entering Asset Information

(a) All Division Asset Managers will use the following standards when creating or modifying asset records in AASIS:

(b) **Asset Description:** The entry in this field will show the description of the item, which includes a category plus the model name/number. The following examples are how an asset description should be entered in this field:

- Enter in upper and lower case as shown below with a colon (:) and a space following the category. (The manufacture name should not be included. There is another field in which to enter that data.)
- Desktop: OptiPlex GX150
- Server: PowerEdge 600SC
- Printer: LaserJet 4
- Network Printer: LJ9000N
- Furniture: Executive Desk
- Refrigerator: Estate Model TT18
- Typewriter: Selectric II
- Automobile: 1995 Oldsmobile Cutlass

(c) Listed below are some of the most common assets used by DHS. Asset managers will use these standard descriptions for the category when creating asset shells in AASIS. All other assets entered into AASIS will be entered using the same basic format as described above. To the right of the category is the recommended class for that particular asset.

Class codes for assets not listed here can be selected from a drop down.

CATEGORY	CLASS CODE
Automobile	211003
Bus	211004
Camera	212006
Credenza	212001
Copy Machine	212002
Controller	212003
Desktop	212003
Dictating Machine	212013
Fax	212006
File Cabinet	212001
Hub, Network	212003
Monitor	212003
Network Printer	212003
Postage Machine	212002
Projector	212004
Printer	212002
Refrigerator	213001
Scale	215001
Scanner	212003
Server	212003
Telephone System	212006
Television	212007
Typewriter	212001
Truck	211008
UPC	212003
Van	211008
Wheelchair	214002

- (d) Asset Main No. Text: AASIS will default to the description in the Asset description field if left blank. You may overwrite this field or add further description if needed.
- (e) Asset Description (2): This is a miscellaneous field that can be used as needed to further describe the asset, its location, individual assignment or other pertinent information relating to the asset.

XI. Accountability

- (a) Each division is responsible for maintaining accurate records and accountability for all assets assigned to the division. Each division's Asset Coordinator or Asset Specialist will conduct an annual physical asset sighting and perform the necessary action within AASIS to update and complete the Division's asset listing. In addition, the division will complete the Certification of Assets Form stating all assets are certified and accounted for to the DHS Chief Financial Officer, no later than June 30 of each year.

- (b) When updating AASIS during physical inventory, always be sure to update the last inventory on date field with the date the asset was sighted.

XII. Investigations of Missing Property

- (a) When assets on record (AASIS) cannot be located, the unit manager should immediately appoint a member of the staff (of supervisory/managerial or equivalent grade level) to investigate the situation and present facts. A memorandum from the manager (appointing authority) must be written to the appointed individual, notifying him or her of the investigative duties. The investigator must:
 - (1) Obtain the full identification and the last recorded location of the missing property from the AASIS asset records.
 - (2) Conduct a search of property records to determine if the equipment has been transferred to another AASIS cost center.
 - (3) Determine if equipment is on loan to another area or division.
 - (4) Search the last known location of the equipment and adjacent areas and interview all individuals assigned to these areas or known to have access to the missing equipment.
 - (5) If it appears that a theft has occurred, the appropriate law enforcement officials must be called. The police report should be included in the investigative report.
- (b) The investigator will complete and sign Missing Asset Investigation Report, Form DHS-1036, and submit it to the appointing authority. The appointing authority will add recommendations and signature to the report and submit it to the division director. In cases where disciplinary action or pecuniary liability will be assigned to an individual, the case will be referred to the Office of Chief Counsel for review and recommendations. The division director will sign and send the completed report to the DHS Agency Asset Manager.
- (c) The DHS Agency Asset Manager will attach a Credit for State Property memorandum to the documents and forward them to the DFA Director. When notified by DFA of approval, the DHS Agency Asset Manager will deactivate the asset.
- (d) If, at any time during the investigation, the missing equipment is located, the investigation should end. However, the investigator should submit an abbreviated report to the appointing authority, outlining the circumstances surrounding the case for any action deemed necessary.

XII. Conflicting Policies Superseded

This policy replaces DHS 1043, dated July 1, 2006 and any existing policies or specific sections of existing policies that conflict with the terms of this policy.