**Reimbursement of Capital Expenditures**

**Policy Number:** 233

**Subject:** Outline policy for DCF reimbursement of capital expenditures

**Last Updated/Reviewed:** 2/1/2018

**Contact Div/Bur/Sec:** DMS/Finance/Accounting

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*Any information referenced within this document is considered to be a part of this policy with the exception of the “related resources” section.*

**Summary**

The purpose of this financial policy is to provide guidance related to the purchase, charging and disposal of capital assets, equipment, and supplies under Department of Children and Families (DCF) grants and contracts.

This policy supersedes all policies and program materials previously issued by DCF or previously issued by other agencies for programs that were transferred to DCF.

**Related Resources**

[2 CFR Part 200](https://www.ecfr.gov/cgi-bin/text-idx?SID=da6f142ff51f2b9fdb6d338adc989c3f&mc=true&tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl)

[45 CFR Part 95](https://www.ecfr.gov/cgi-bin/text-idx?SID=0588978e1c973e578cdaed57903820ad&mc=true&tpl=/ecfrbrowse/Title45/45cfr75_main_02.tpl)

[DCF Allowable Cost Manual](https://dcf.wisconsin.gov/files/finance/fias/pdf/dcfallowablecostmanual.pdf)

**Definitions**

**Capital Asset**

For the purposes of this policy, a capital asset is defined as an item of non-expendable, tangible or intangible property having an acquisition cost of $5,000 or more and a useful life of more than one year. It includes information technology hardware and software. All equipment, regardless of acquisition cost, should be inventoried and tracked as a capital asset. Generally, capital assets can only be charged to DCF contracts/grants as depreciation expense over the life of the capital asset. Exceptions may be granted if expenditures meet certain requirements and are discussed later in this policy.

**Supplies**

Supplies include all tangible personal property other than those included as a capital asset.

Supplies can be expensed and charged to DCF contracts/grants in the accounting period of purchase. Supplies include computing devices if the “acquisition cost is less than the lesser of the capitalization level established by the non-Federal entity for financial statement purposes or $5,000, regardless of the length of its useful life” per 2 Code of Federal Regulations (CFR) part §200.94.

**Acquisition Costs**

Acquisition cost is the sum of the net invoice price plus the cost of installation and any modifications, attachments, accessories, or auxiliary apparatus necessary to make the item usable for the purpose for which it was purchased. Acquisition costs for software includes those development costs capitalized in accordance with generally accepted accounting principles (GAAP).

**Depreciation**

Depreciation is a means of allocating the cost of capital assets to the time periods benefiting from the use of the capital asset. Depreciation methods include straight-line (costs are equally spread over each period during the asset’s useful life) and accelerated (costs are higher in early periods and lower in later periods of an asset’s life). DCF strongly encourages the use of the straight-line method of depreciation. Charging via Use Allowance is **no** longer an acceptable method.

**Serial Purchases**

Serial purchases are successive purchases that are customarily made as a single purchase but are divided into multiple purchases to circumvent approval requirements or depreciation thresholds. Such purchases are treated as a single purchase for approval and depreciation purposes.

**Background**

Local agencies doing business with DCF are required to follow the cost principles set forth in OMB’s 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). In addition, 45 CFR Part 95 General Administration – Grant Programs (Public Assistance, Medical Assistance and State Children’s Health Insurance Programs) details additional requirements for federal financial participation of the development and operations of Automatic Data Processing systems and other equipment.

**Policy**

Local agencies must follow the CFRs as they pertain to the purchase, charging and disposal of capital assets, equipment, and supplies under DCF contracts and grants. Under the CFRs, capital assets may only be charged to DCF contracts and grants through depreciation over the life of the item, unless an exception is granted as discussed later in this policy. Non-capital equipment and supplies can be expensed in the accounting period of purchase.

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| --- | --- | --- | --- | --- |
| **Asset Type** | **Acquisition Cost** | **Method to Charge DCF** | **Disposal Requirements** | **Tracking Requirements** |
| Supplies/Non-Capital Asset | Under $5000 | Expense immediately | Follow 2 CFR Part §200.314 | Track as inventory and provide accounting |
| Capital Asset | $5,000-$25,000 | Depreciate over useful life **or** receive DCF [prior approval](https://dcf.wisconsin.gov/files/forms/doc/2624.docx) to expense immediately | Contact DCF | Track as capital asset and provide accounting |
| Capital Asset | Over $25,000 | Depreciate over the useful life **and** disclose purchase to DCF  | Contact DCF | Track as capital asset and provide accounting |

**Serial Purchases**

Serial purchases may not be used to circumvent the $5,000 threshold for being classified as a capital asset subject to depreciation. If components are intended to be used together and cannot function separately, they are considered to be one asset unit. Items are considered one unit even if the units are of different brands or are purchased separately. If the unit acquisition cost exceeds $5,000, the item must be charged via depreciation.

**Depreciation Method**

DCF strongly recommends the use of the straight-line depreciation method. Charging via Use Allowance is **no** longer an acceptable method.

**Useful Life**

The useful life of an asset is based on Generally Accepted Accounting Principles (GAAP) and should take into consideration such factors as the type of construction, historical usage patterns, technological developments and the replacement policies of the agency. Useful life periods used for grant/contract equipment must be consistent with the useful life periods used for non-grant/contract equipment at the agency. Useful life periods must be 3 years or more except in very unusual circumstances. If you feel a useful life of less than 3 years is justified in a particular situation, please contact DCF for approval.

**Recommended useful lives by asset type:**

 Office furniture 10 years

Office equipment 5 years

Telecommunications equipment 3 years

 IT equipment 3 years

 Computer software 3 years

 Vehicles 5 years

**Equipment Ownership and Inventory**

The local agency will be responsible for the installation, maintenance and security of equipment which has been charged to DCF through depreciation. The local agency will be responsible for arranging and paying for all regular service and emergency repairs necessary to keep the items in good working order. The local agency will also be responsible for replacing any damaged equipment.

DCF reimbursement of depreciation should be considered reimbursement for usage while under contract with the Department. Ownership of the equipment remains with the local agency, as does the responsible for reimbursing the vendor for the purchase of the equipment.

The local agency must maintain adequate, current, detailed inventory records, as well as records to support the charging of depreciation. When the asset is no longer needed for the original program or project, the local agency must follow 2 CFR parts §200.313-200.315 and 45 CFR part §95.707.

**Disposal of Capital Assets**

Agencies may have old equipment that was expensed at the time of purchase rather than charged via depreciation to DCF contracts or grants under previous periods. If the agency wishes to dispose of such a piece of equipment, and that equipment has useful life remaining, please contact DCF for disposal instructions. Disposal methods will be determined on a case-by-case basis. The local agency must follow 2 CFR parts §200.313-200.315 and 45 CFR part §95.707.

**Supplies and Non-Capital Assets**

Items costing under $5,000 should be expensed in the accounting period of purchase.

The local agency must maintain complete, current, and detailed inventory records of supplies and non-capital assets. 2 CFR part §200.314 should be followed for ownership and disposal.

**Leasing**

Local agencies who wish to lease equipment must follow the provision titled “rental costs of real property and equipment” in 2 CFR part §200.465.

**Exceptions**

45 CFR part §95.705 allows local agencies to expense capital assets in the accounting period of purchase when the acquisition cost is between $5,000 and $25,000**, but** only with DCF prior approval.

Any agency requesting approval for such a direct charge must complete the “[*Request to Charge Capital Asset as a Direct Expense*](https://dcf.wisconsin.gov/files/forms/doc/2624.docx)” form. This requires justification and documentation of the purchase, in addition to certifications by the requester. This form serves two purposes:

* It provides documentation to justify acquisition costs that could be questioned during an audit.
* It provides documentation of an approved exception to use direct costs for the purchase of equipment.

To comply with the Uniform Guidance and DCF accounting procedures, the following equipment and capital expenditures are normally considered capital expenditures and not direct costs:

* Pursuant to 2 CFR part §200.439, “Capital expenditures for general purpose equipment, buildings and land are unallowable as direct charges, except with the prior written approval of the Federal awarding agency or pass-through entity.”
* In accordance with 45 CFR part §95.705, subpart (b), equipment having a unit acquisition cost of $25,000 or less maybe claimed in the period acquired if approved in advanced by DCF. Reimbursement for equipment having an acquisition cost in excess of $25,000 must be depreciated over its useful life.
* Pursuant to 45 CFR part §304.23, IV-D, Federal Financial participation (FFP) is never available for costs of construction or major renovation. (This applies to child support programs only.)

Capital assets with an acquisition cost of more than $25,000 must be depreciated and expensed consistently throughout the useful life of the capital asset— no exceptions. When an agency plans to purchase and charge an asset of more than $25,000, the asset should be disclosed in the budget section of the DCF contract and DCF should be notified before depreciation expense is reported in SPARC. Submit notifications of asset purchases costing more than $25,000 to DCFFinanceGrants@wisconsin.gov.

Local agencies are responsible for complying with the 2 CFR part 200 and 45 CFR part 95 and any other applicable regulations. Agencies are responsible for repaying disallowed costs and non-compliance penalties related to audit exceptions.

The agency must maintain complete, current and detailed inventory records of all capital assets and non-capital assets. Documentation or all purchases and disposals must be maintained for audit purposes.

**Audits and Reviews**

Capital and non-capital assets may be reviewed as part of the Single Audit and DCF monitoring visits. These reviews will examine agency procedures to determine if:

* Asset expenditures claimed are contract/program related and allowable per federal guidelines
* Proper prior approval, if necessary, was received by DCF before purchase
* The equipment purchase is reasonable and not excessive
* A reasonable life expectancy and appropriate depreciation calculation was used
* The equipment is adequately supported by accounting and inventory records
* The depreciation expenditures end when useful life reached
* Capital asset purchases of over $25,000 or more were properly disclosed to DCF
* Disposal was handled appropriately

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