

**CAPITAL ASSET PURCHASING  
GUIDELINES AND START UP CONTRACTS  
MAY 2017**

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## **CAPITAL ASSETS**

The following information is intended to provide expanded guidance to DDS staff and provider organizations regarding the proper methods of acquiring and reimbursing providers for capital items. This guidance document is based on OSD's Purchase of Service (POS) Capital Items Procurement Policy, dated August 3, 2007.

OSD policy "recognizes that the Commonwealth typically should not own capital items and then lend them to human and social service contractors, but rather, when necessary, these contractors should receive funding from the Commonwealth to procure necessary capital items of furnishings and equipment to serve the Commonwealth's clients."

OSD's policy presents the relevant regulatory provisions and contract forms, followed by the three options available to departments when procuring capital items. All DDS and provider staff should become familiar with OSD capital assets policy and related forms and guidance materials. Questions regarding how this policy should be applied may be directed to the DDS Central Office Contracts Office or to OSD. Additional information on OSD policy can be found in the Audit Compliance Supplement published yearly by the Operational Services Division.

### **Definition of Capital Asset**

OSD regulation, 808 CMR 1.00, was updated in October 2016. One of the key revisions was a change in the definition of capital item to align with federal requirements

- A capital item is: an asset or group of assets of nonexpendable personal property having a useful life of more than one year, or a repair, betterment or improvement, or a group of repairs, betterments or improvement of non-moveable assets which adds to the permanent value of an asset and prolongs its useful life for more than one year, and which costs the lessor of: a) the capitalization level established and certified by the contractor in accordance with generally accepted accounting principles for financial statement purposes, or b) the dollar amount authorized by the federal office of management and budget circular A-122 of A-21 or successors thereto in aggregate.

The current capitalization threshold authorized by the federal government is \$5,000. A provider's Board of Directors can establish a capitalization level that is less than or equal to \$5,000, but not more than \$5,000.

### **KEY ELEMENTS OF CAPITAL ASSET DEFINITION**

#### **Asset or Group of Assets**

The regulatory definition includes not just single-item capital assets but also is intended to govern situations in which a group of like or related assets are being purchased. A simple example to use for a group of like or related assets is the case of a dining room set (i.e. a table and a matching set of chairs). In this case, each item of the set is not considered separately for purposes of determining whether the purchase is a capital purchase. The items are taken together as a group of related assets for this purpose. Likewise, a living room set that includes a matching sofa and chairs would be considered a group or assets and not as separate items. Providers that are unsure how to classify purposes as a single or group of assets should contact the Central Office Contracts Office or OSD for clarification.

### **Useful Life of More than One Year**

Capital items are intended by definition to have a useful life of more than one year. These assets are not “expendable” items, like supplies and certain items of equipment.

### **Provider Capitalization Level**

Each provider must have a formally approved “capitalization level,” which is the dollar amount equal to or above which items with a useful life of over one year are considered to be capital assets. Providers are required to include this capitalization level on all Capital Budget forms.

As noted above, the upper limit for a provider’s capitalization levels is \$5,000. This amount ties to the Federal amount contained in OMB Circular A-122.

### **Repairs, Betterments, Improvements**

As of October 2016, repairs, betterment or improvement that add to the permanent value of an asset, or that will prolong its useful life for more than one year, and are more than a provider’s capitalization level, are subject to requirements for procurement and reimbursement as a capital item. Any repairs, etc., that exceed this amount must be depreciated in subsequent years according to the OSD schedule of asset lives.

### **Moveable Assets**

The Capital Budget form and related process may only be used in cases where moveable capital assets are needed to support a provider’s program operations. The Capital Budget agreement should describe the asset in sufficient detail to identify the key characteristics of the item to be purchased. As in the case of “like items,” there may be situations that present a less-clear case for whether an asset should be considered to be a “moveable” item. In these cases, guidance should be sought from the DDS Contract Office or directly from OSD.

### **Non-Moveable Assets**

These assets, which include large fixtures or mechanical units with a useful life of one year or greater and a value over the provider’s capitalization level, as well as major improvements and building renovations that exceed a provider’s capitalization level, may only be acquired directly by the provider agency. A cost allowance for depreciation and interest relating to the financing of such assets is already included in regulated rates outlined in 101 CMR 420.00, specifically in occupancy rates for Adult Long Term Residential Programs.

## **REQUIREMENT FOR CAPITAL ASSET ACQUISITIONS**

### **Prior Approval from Regional Office**

Any capital item purchased by a provider through a capital budget must be previously authorized by the Regional Contracts Office through a signed Capital Budget contract. Any purchases made before a Capital Budget contract is finalized will not be covered by the Department.

### **Open and Free Procurement**

OSD regulations state that capital assets must be acquired through the solicitation of bids and proposals consistent with generally accepted accounting practices. This generally involves getting three or more bids for a particular item. Competition should be, as much as is practicable, open and free, and providers should maintain a written record of the solicitation. DDS staff involved in authorizing the purchase of capital items may, as a good business practice, request a copy, a summary, or a provider certification regarding the solicitation details from providers for internal DDS records.

### **Inventory Requirement**

All capital purchases must, under OSD regulations, be labeled and included in the provider's written inventory system. Inventory records must contain, at a minimum, the number and description of the capital assets, the source of funding, the acquisition cost, and the detailed location of each item.

### **Disposition Requirements**

In cases in which the provider contractor holds title to a capital asset under OSD policy, there are two relevant provisions regarding the disposition of capital items. First, if the item is fully depreciated under the OSD schedule of useful lives, the contractor may retain the property. In cases where the item is not fully depreciated, the item and its title may be returned to DDS, transferred to an alternate provider, or retained by the provider and sold with the remaining undepreciated value or proceeds from the sale paid back to the Commonwealth or applied toward programs or purchases directly benefiting DDS clients.

### **Options for Acquiring Capital Assets**

OSD allows for three options that may be used by the Department to acquire capital assets for program purposes: 1) Reimbursement where the provider purchased a capital item and depreciation costs are covered either through a regulated unit rate or a cost reimbursement contract, 2) Commonwealth Purchase where the Department purchases the asset and makes it available to the provider through a free use agreement or 3) Contractor Purchases where the Department authorizes the acquisition of a particular capital asset through a Capital Budget contract. The provider purchases the authorized assets, and DDS reimburses the provider for the cost of the acquired item, after receiving adequate documentation to support the conclusion that the authorized item was properly procured and received by the provider.

## **Capital Budget Requirement**

All capital assets procured under Option 3, above, must be authorized via the completion by the provider of an Attachment 6: Capital Budget document. This document sets forth the proposed assets to be purchased, the need for the item(s), the limitations, conditions, inventory and reporting requirements relating to the use and disposition of the assets, and specifies the provider's capitalization level. It must be signed by an authorized signatory of the provider organization.

## **CAPITAL ASSET PURCHASING PROCESS**

Following is the Department's process to employ when purchasing capital assets.

1. Provider submits request to DDS Area Office to purchase an item or array of items.
2. DDS Area Office reviews request to make sure that: requested items are necessary for operation of program; they are correctly characterized as an allowable Capital purchase (i.e. moveable items); and cost of the items (or combined cost of related group of assets) is in excess of provider's stated capitalization level.
  - a. Non-moveable assets (such as a bathroom renovation) cannot be purchased through a capital budget. Depreciation and allowable interest (if any) is covered through a provider's ALTR occupancy rate for the site. The region may decide to increase the occupancy rate for a site if a provider can demonstrate that depreciation and allowable interest have significantly increased as a result of the renovations.
  - b. Items costing less than a provider's capitalization level may be added to a start-up budget for new ALTR sites.
3. Department authorizes spending commitment by signing a Standard Contract Form with the Capital Budget Form as supporting documentation. The Capital Budget form will include the provider's applicable capitalization level.
  - a. Contract will be coded under activity code 3191
  - b. Open Orders that don't reference a Master Agreement may not be used
  - c. Contract must be executed prior to purchase of approved capital items.
4. The Provider should obtain no fewer than three bids on each item to be purchased. In rare cases in which this is not possible, due to the nature of the item proposed for purchase, a detailed statement from the provider as to why it was not feasible to obtain three bids should be provided.
5. Provider purchases asset in a manner consistent with the Capital Budget.
6. Provider submits invoice for payment
  - a. Goods must be delivered within fiscal year of contract duration
  - b. Invoices should document items purchased per OSD Capital Asset Purchasing policy:
    - i. VIN # for vehicles purchased under this process,
    - ii. Serial #, Model # to identify other equipment,
    - iii. Service contractor's inventory identification label # and location of asset,
    - iv. Amount paid, documented by a copy of the invoice from the seller to the provider (bill of sale).

7. The Department may review bid information to ensure that a competitive procurement was conducted and that best value is being provided (a copy of bids may be kept with contract file)
8. Documentation of capital purchase must be maintained with the contract that supported the request.
9. Any provider in possession of capital items is required to label, maintain and keep on file a written inventory of the property in accordance with generally accepted accounting principles. Upon termination of the Contractor's contracts with the Department, capital items acquired with Commonwealth funds under a capital budget shall be subject to the following disposition standards:
  - a. If the item has been fully depreciated, it shall be retained by the Contractor, or;
  - b. If the Contractor holds title and the item has not been fully depreciated, the item and its title shall be returned to the Department, or transferred to another Contractor, or the item may be retained or sold by the Contractor after paying the Commonwealth for the remaining value of the item not fully depreciated or the proceeds of the sale, as determined by the Department.

**Current Expensing of Capital Items:** All costs attributable to the current expensing of a capital item. Following is the schedule of Asset Service Lives published by OSD.

**Schedule of Asset Service Lives**

ASSET CATEGORY	YEARS OF LIFE	YEARLY RATE
<b>Buildings:</b> Type 1 - Fireproof construction Type 2 - Non-combustible construction (as classified by the State Board of Building Regulations and Standards in accordance with 780 CMR Chapter 4) Type 3 - External masonry wall construction Type 4 - frame construction (as classified by the State Board of Building Regulations and Standards in accordance with 780 CMR Chapter 4)	40	2.5%
<b>Building/improvements</b>	20	5%
<b>Leasehold improvements</b>	5 (or term of lease, whichever is greater)	20%
<b>Equipment</b>	10	10%

<b>Computer equipment</b>	3	33.33%
<b>Other office and other program equipment:</b> Items such as copiers, ovens, washers, dryers, office files and capitalized office and program supplies.	5	20%
<b>Life safety improvements:</b> Building or leasehold improvements or equipment acquisitions made solely to satisfy the requirements of any department regarding life safety or physical environment. Purpose must be documented.	5	20%
<b>Motor vehicles</b>	5	20%
<b>Used motor vehicles</b>	3	33.33%
<b>Residential furnishings</b>	3	33.33%
<b>Office furnishings</b>	7	14.2%

### **Replacement Costs:**

Once a site is operational, any replacement costs for furniture or equipment, even if greater than a provider's capitalization level, are not appropriate for a Capital Budget. Ongoing replacement costs are included in the occupancy rate negotiated for the site with the regional contract office and in the case of new sites, in the rate set by EHS. This includes replacement costs for items such as bedroom furniture when a new individual moves into a home. In limited cases, the Area and Regional Office may determine it is in the best interests of the Commonwealth to cover the cost of a specialized piece of equipment through a Capital Budget for a new resident if the item is moveable and exceeds a provider's capitalization limit.

### **START-UP CONTRACTS:**

Start Up contracts are primarily issued for Residential Programs that will incur costs for a new site before the operational rate is established and individuals are residing in the home. Start-up contracts are issued by the Regional Contracts Office and tend to be for 3 months in length, but can be extended to six months if a provider experiences a delay in opening a new site. Any extensions beyond six months require the approval of the Department's Central Office Contracts Unit.

### **Appropriate Costs for Start-Up Contract**

Items appropriate for a Start Up Contract include:

- Basic supplies
- Staff costs: Includes payroll, benefits, training
- Furnishings for common space that is less than a provider's capitalization level
- Storage space for medication
- Other non-capital items considered necessary for the operation of a new site

Items not appropriate for a Start-Up Contracts include:

- Landscaping and associated costs: Ongoing costs which are covered by regulated rate for the site.
- Home improvements/Renovations: As a non-moveable expense, the department cannot cover these costs through a capital budget. Deprecation and allowable interest are covered through the regulated rate.
- Switch and wiring: Covered through regulated rate.

Prior to approving a start-up contract, the Area Office and/or Regional Contracts Office will request an itemized description of items and costs included in the start-up budget. The Department cannot reimburse a provider for any costs incurred prior to finalization of a fully executed Start-Up Contract. In a majority of cases, the Regional Contracts Office will ask providers to sign a separate Standard Contract Form and complete an Attachment 1 and Attachment 3 in order to execute a Start-Up Contract. In the case of ABI ALTR home, a region may decide to add the Start Up Costs and Attachment 3 to the Statement of Work versus executing a separate Standard Contract Form. Either option is acceptable. Total start-up costs for ABI ALTR homes, including the purchase of capital assets, may not exceed \$25,000.