HOSPITALS: PLANT ASSET ACCOUNTING

> "The governing authority of a health care institution bears the responsibility of maintaining, utilizing, and preserving the assets of the institution entrusted to its custody. Funds must be available, therefore, to finance projects involving plant capital assets that because of deterioration and obsolescence must be replaced in the best interest of the public."
>
> --American Hospital Association

I. TRANSACTIONS

Purchases and disposals of plant assets are to be processed in accordance with procedures established by Business and Finance Bulletin BUS-29. Donated assets are recorded directly in the University plant accounts and are reflected in the hospital operating accounts through depreciation charges and subsequent disposal only.

A. DISPOSITION OF EQUIPMENT

Each hospital must maintain a procedure for controlling the disposition of its equipment to ensure that each item is deleted from the inventory records and that the realized salvage value (trade-in, scrap sales, etc.) is identified and recorded. Trade-ins are recorded as part of the purchase transaction of replacement equipment (Business and Finance Bulletin BUS-29), and sales for scrap, etc. are to be recorded as non-operating miscellaneous receipts in the fund used for purchases of replacement equipment (see section I-B below). There is no financial transaction entry to be recorded in the hospital accounts for lost, stolen, or worthless equipment. The University plant accounts for inventorial equipment are routinely adjusted as part of the fiscal closing process based on additions and deletions recorded in the inventory system.

Each quarter, upon receipt of data processing report EQ-030C (Inventoriable Equipment Disposals by Property Number), each hospital will calculate the gain or loss on all hospital equipment disposed of. In calculating gain or loss, the following data will be identified for items disposed of: recorded cost, depreciation through the end of the fiscal year of disposition, book value, realized scrap value, and gain or loss. Items not included in report EQ-030C are not to be included in this calculation. The gain or loss will be recorded in a separately designated hospital operating expense account as an adjustment of depreciation expense with an offsetting entry to the Reserve for Replacement Equipment.

I. TRANSACTIONS (Cont.)

B. EXPENDITURES

Expenditures for equipment and facilities are non-operating transactions of the hospital and may not be recorded in fund 63000. In the context of University reporting, they are considered to be current expenditures of the hospitals. Therefore, each hospital will establish two funds in the 63XXX series: one for expenditures for replacement equipment (at full cost) and one for expenditures for additional equipment and facilities modifications. When a specified set of purchases is being financed on a deferred payment plan, another fund in the 63XXX series may be established to identify the equipment and amounts involved. Expenditures for equipment and facilities are not to be charged directly to reserve accounts.

Expenditures for replacement equipment are to be funded from trade-ins on purchases, miscellaneous receipts from sales of fixed assets, and the Reserve for Replacement Equipment. Expenditures for additional equipment and facilities modifications are to be funded from the Reserve for Improvements. When approved by the Vice President--Administration, principal payments for additional equipment purchased under deferred payment financing may be funded from the Reserve for Replacement Equipment.

The funding from each reserve will be recorded by a financial transfer of funds from the reserve accounts to the unexpended balances account for the 63XXX funds involved. Budgets may be established for equipment expenditure accounts by appropriation from the unexpended balances account.

II. DEPRECIATION

A. POLICY

Depreciation on University-owned buildings and equipment used in connection with patient care will be recorded as an operating expense of each hospital and credited to the reserve account indicated in section II-B. Depreciation computations will be based on:

1) The cost method of capital asset valuation, which may be established by an independent appraisal if not available from the University records.

2) Useful life as determined by an independent appraisal for buildings and fixed equipment, and as established in the University inventory system for major movable equipment. (Useful life as established in the University inventory system is to be consistent with American Hospital Association guidelines.)

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HOSPITAL FINANCE DIRECTORS

Subject: Capitalization of Software

The following guidelines on the capitalization of software will apply only to the five teaching hospitals and the two neuropsychiatric institutes. These guidelines are being developed based on regulations contained in Section 104.17 of the Provider Reimbursement Manual, published by the Health Care Financing Administration (HCFA) and some of the premises specified in Associate Vice President Pastrone's letter of June 7,1984.

Guidelines

1. Computer software purchased with computer equipment (hardware) must be depreciated over the useful life of the hardware if the cost of the software is not separately stated in the vendor's billing document, i.e., invoice.

2. If the software purchase price is $1,000 or more, and the purchase price is separately stated in the vendor's bill, or the software is purchased independent of the hardware, it must be reported as capitalized cost for hospital reporting purposes and depreciated over a minimum of five years. Non-recurring license fees also can be capitalized as part of the software cost. Software installation costs incurred internally, if over and above normal operating costs, can also be capitalized. The hospitals must maintain a capital asset register for these software assets, which should include the following: the name of the asset, the purchase price, and the date of acquisition.

3. The costs of computer software generated, in whole or in part, by the provider's internal staff are to be expensed, since these costs are viewed by HCFA as normal operating costs. The software's designation as "internally generated" will not be affected, if outside consultants are used to assist the provider's staff in systems modifications. Internal costs of installing software, if capitalized, shall be included in the preparation of the hospital's capital budget.

4. Object code 9230 will be used to record capitalized software. This code will be required for submission to the Corporate Financial System (CFS).

5. Property numbers and CALCODES will not be assigned to capitalized software. The capitalized value of the software need not be capitalized into the campus general ledger asset accounts. However, the campus, at their option, can record the capitalized value in memo form into the general ledger by using Hospital Clearing Accounts 140000-149999 for the asset value with the offset going to Investment in Assets.

6. Software costing less than $1,000 (per software package) will be classified as supplies and expenses (sub 3).

John G. Turek, Jr.

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Hospital Directors
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Hospital Controllers

The straight-line method of computation will be used. Depreciation schedules for individual assets start on July 1st of the fiscal year following the fiscal year of acquisition. The full cost will be depreciated without regard to potential salvage value and a full year of depreciation will be recorded for the fiscal year in which a fixed asset is removed from hospital service. Thus monthly depreciation charges remain fixed during any fiscal year.

During fiscal closing each campus will move its depreciation expense, including gain or loss on the disposition of equipment, to unexpended balances in fund 63000.

B. RESERVES

Each hospital is required to maintain the two authorized reserves specified below in order to fulfill the routine obligations of proper financial management of a self-supporting institution. Other reserves to provide for specific obligations of a unique nature may be approved by the Vice President--Administration.

1) Reserve for Replacement Equipment

This reserve is credited monthly with the amount charged to operations for depreciation of major movable equipment and is charged for funds transferred to equipment and facility expenditure accounts as indicated in section I-B. The balance in this account at fiscal year end shall not be less than the amount of equipment depreciation recorded during the year then ended or the amount required for replacement purposes in the subsequent year, whichever is greater.

This reserve shall be augmented from the Reserve for Improvements as required for the maintenance of the equipment replacement program. Amounts in this reserve in excess of the required minimum balance may be transferred to the Reserve for Improvements.

2) Reserve for Improvements

This reserve is credited monthly with the amount charged to operations for depreciation of buildings, fixed equipment, and leasehold improvements, and is charged for funds transferred to equipment and facility expenditure accounts as indicated in section I-B.

This reserve is also credited annually with unexpended balances representing operating gain and may be used to fund operating losses including a year-end deficiency in clinical teaching support.

Historical Note: This material was originally issued as sections IV-B and IV-D of chapter H-576-5 on 7/1/69. It was extracted and reissued as a separate chapter on 6/1/73 in order to facilitate and complete the replacement of chapter H-576-5 with several separate chapters. Analyst: Nick Cutting.