

**LSUHEALTH CARE SERVICES DIVISION  
BATON ROUGE, LA**

POLICY NUMBER: 2524-17

CATEGORY: Fiscal

CONTENT: Capitalization and Depreciation

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7/10/17  
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7/7/2017  
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Date

## I. General

The Health Care Services Division (HCSD) is adopting a system wide policy in order to identify the types of expenditures that meet capitalization and depreciation criteria as well as establishing the values at which these expenditures are capitalized and depreciated. When there are issues regarding the treatment of capitalized assets, please contact the HCSD Comptroller.

With regards to the cost thresholds for capitalization and depreciation, HCSD shall adhere to federal standards for Medicare and Medicaid Cost Reporting, which is a deviation from the guidelines set forth in the Office of Statewide Reporting and Accounting Policy (OSRAP) **MEMORANDUM SA 01-31**. The HCSD deviation from OSRAP capitalization and depreciation guidelines were approved by OSRAP in its letter to the LSU System's Office dated February 8, 2006. HCSD will utilize the half-year convention for depreciation of assets placed into service and HCSD establishes depreciation based on the useful lives presented in the **American Hospital Association's (AHA) *Estimated Useful Lives of Depreciable Hospital Assets*** book. The current edition of the **AHA's *Estimated Useful Lives of Depreciable Hospital Assets*** is 2013.

## II. Capitalization of Movable Property

A. Movable property expenditures shall be capitalized for financial statement purposes at invoice cost less adjustments for discounts and/or trade-in allowances but including any freight or transportation charges, in transit insurance, taxes, and installation fees, provided that such property:

1. Has an individual cost of \$5,000.00 or greater.
2. Is a tangible durable good with an economic useful life greater than one year.
3. Is free standing and able to operate independently of any other accessory devices unless such accessories are part of the initial purchase as noted in **Section II B 4**.

B. Capitalized movable property will generally include the following:

1. Newly acquired assets.
2. Complete replacement of existing assets.
3. Rebuilding or restoration of existing assets provided that any of the three following conditions are met:
  - a. The rebuilding/restoration project restores the asset to like-new condition.

- b. The useful life of the asset is extended.
      - c. The rebuilding/restoration cost is \$5,000 or greater.
  - 4. Accessories and peripheral equipment invoiced at the time of initial purchase shall be included in the initial cost of the newly acquired asset with the following exceptions:
    - a. Accessories and peripheral devices purchased with the intent of being interchangeable with other capital assets shall be treated as separate and distinct assets.
    - b. Accessory and peripheral equipment purchased subsequent to the initial purchase of the newly acquired asset shall be treated as a separate and distinct item.
    - c. General exceptions to separate and distinct treatment include:
      - i. Accessories and peripherals purchased and added to the newly acquired asset before the newly acquired asset is placed into service.
      - ii. Accessories and peripherals purchased as part of a project provided no assets in the initial purchase are placed into service prior to the purchase of such accessories and peripheral equipment.
  - 5. Leased Equipment acquired through a capital lease shall be capitalized provided such leases meet the criteria specified in FASB Statement 13 dated November, 1976.
  - 6. Modular furniture that consist of interchangeable pieces costing less than \$5,000 each shall not be considered a capitalized asset.
- C. The HCSD Capitalization Policy shall not violate State Law relating to Tagging and Tracking of movable property. Movable property valued at \$1,000.00 or more shall be tagged and tracked in accordance with Louisiana Property Assistance Agency rules and regulations pursuant to **Title 34, Part VII**, of the *Louisiana Administrative Code*.
- 1. Capitalized movable property shall be coded to the appropriate acquisition account in the financials system.
  - 2. Financial system queries, reports, as well as manual efforts from HCSD staff and Hospital property control managers, will be utilized to distinguish between those assets that meet the Louisiana Property Assistance Agency's

reporting criteria and those assets that meet financial statement, as well as Medicare and Medicaid Cost Reporting capitalization criteria.

### **III. Capitalization of Fixed Equipment**

- A. Fixed equipment generally includes items that are affixed to a permanent structure and are not easily portable by design.
  - 1. Fixed equipment does not fall under the Louisiana Property Assistance Agency's reporting criteria; yet, it must be included for financial statement and Medicare/Medicaid Cost Reporting purposes.
  - 2. Examples of fixed equipment include: built-in shelving and wall cabinets, electrical and plumbing fixtures, boilers, and other built-in mechanical and electrical equipment that is affixed to a structure.
- B. Fixed property expenditures, excluding Land, Buildings, and Infrastructure, shall be capitalized for financial statement purposes at invoice cost including any freight or transportation charges, in transit insurance, taxes, and installation fees, provided that such property:
  - 1. Has an individual cost of \$5,000.00 or greater.
  - 2. Is a tangible durable good with an economic useful life greater than one year.
  - 3. Is able to operate independently of any other accessory devices unless such accessories are part of the initial purchase.
- C. Capitalized fixed property will generally include the following:
  - 1. Newly acquired assets.
  - 2. Complete replacement of existing assets.
  - 3. Rebuilding or restoration of existing assets provided that any of the three following conditions are met:
    - a. The rebuilding/restoration project restores the asset to like-new condition.
    - b. The useful life of the asset is extended.
    - c. The rebuilding/restoration cost is \$5,000 or greater.

#### **IV. Capitalization of Land**

- A. Land is considered to be an inexhaustible asset with an unlimited life:
  - 1. Land acquisitions shall be recorded on the books at historical cost. (purchase price)
  - 2. Land is **NOT** depreciated.
  - 3. Land shall be recorded in and reconciled to the Louisiana State Land and Building System maintained by the Division of Administration pursuant to LA R.S. 39:11 and 13.
  
- B. Non-depreciable land improvements are those improvements or betterments that ready the land for its intended use:
  - 1. Non depreciable land improvements shall be capitalized at cost thereby increasing the cost basis of the associated land.
  - 2. Non depreciable land improvements are **NOT** depreciated.
  - 3. Examples of non-depreciable land improvements include: excavation, filling and grading, demolition of existing buildings, and removal or relocation of other property such as telephone or power lines.
  
- C. Depreciable land improvements are those improvements that have a definite useful life or deteriorate over time:
  - 1. Depreciable land improvements shall be capitalized and depreciated if cost of such improvements equal or exceed \$5,000.00.
  - 2. Examples of depreciable land improvements include: landscaping, fencing and gates, and sprinkler systems.

#### **V. Capitalization of Buildings**

- A. Buildings shall be capitalized if the building cost equals or exceeds \$5,000.00.
  
- B. Building additions and improvements shall be capitalized if such costs equal or exceed \$5,000.00 provided such improvements:
  - 1. Enhance the use of the building.
  - 2. Extend the useful life of the building by two or more years over the original estimated useful life.

- C. Buildings shall be recorded in and reconciled to the Louisiana State Land and Building System maintained by the Division of Administration pursuant to LA R.S. 39:11 and 13.

## **VI. Capitalization of Other Assets**

- A. Computer software that is purchased or developed for internal use and has a cost of \$5,000.00 or greater.
- B. Leasehold improvements provided the cost of such improvements is \$5,000.00 or greater.
- C. Infrastructure costs shall be capitalized provided infrastructure costs are \$5,000.00 or greater.
- D. Historical treasures and works of art will be capitalized on the financial statements at original cost and shall **NOT** be depreciated.
- E. Donated assets shall be capitalized based on the financial statements at the fair market value of the donated item at the time of donation.

## **VII. Depreciation of Capital Assets**

As previously stated, HCSD shall utilize the cost thresholds consistent with the Medicare and Medicaid Cost Reporting capitalization criteria and throughout this policy for the purposes of depreciating capital assets. Generally, capitalized assets will be depreciated with the exception of land and other inexhaustible assets.

- A. The half-year convention will be utilized in that a half-year of depreciation will be taken the year an asset is placed into service without regard to the date the asset is placed into service and a half years depreciation will be taken in the year of disposal should the asset have remaining net book value, again with no regard to the date of the disposal.
  - 1. This deviation from OSRAP Memorandum SA 01-31 by HCSD has been approved OSRAP.
  - 2. OSRAP's policy is to take a full year of depreciation the year an asset is placed into service utilizing the full year convention method for depreciation.
  - 3. The half-year convention utilized by HCSD is consistent with the Federal depreciation standards followed for Medicare and Medicaid Cost Reporting purposes.

- B. HCSD will use the **American Hospital Association's** *Estimated Useful Lives of Depreciable Hospital Assets* for determining the useful lives of assets placed into service
1. This deviation from OSRAP Memorandum SA 01-31 by HCSD has been approved OSRAP.
  2. It is HCSD's position that the tables utilized in the **American Hospital Association's** *Estimated Useful Lives of Depreciable Hospital Assets* booklet better meet the depreciation needs of the hospital system and **these tables must be utilized for Medicare and Medicaid Cost Reporting purposes.**

### VIII. Definitions

The following definitions were taken from OSRAP Memorandum SA 01-31:

**Capital assets** are those assets that are not allowed to be taken as a current expense and are reclassified for financial statement presentation.

**Movable property** consists of those capital assets that are not fixed or stationary in nature. They are those assets that are not land, land improvements, buildings, building improvements, or infrastructure.

**Fixed assets** consist of those capital assets which are usually attached and integral to the building's functions and are not associated with any particular department but are associated with the building as a whole.

**Buildings** are permanent structures erected above ground, together with fixtures attached to and forming a permanent part of the building, for the purpose of sheltering persons or personal property.

**Building improvements** are major repairs, renovations, or additions to a building that increase the future service potential of the building and benefit future periods.

**Leasehold Improvements** are improvements made by the lessee to leased property such as land and buildings.

**Land** is an inexhaustible asset that has an unlimited life and therefore is not depreciated.

**Land improvements** are those betterments, improvements, and site preparations that ready land for its intended use.

**Depreciable land improvements** are defined as improvements made to land that have determinable estimated useful lives and deteriorate with use or passage of time.

**Infrastructure** is defined as long-lived capital assets associated with governmental activities that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

**Historical treasures & works of art** are items which are considered inexhaustible and held for public exhibition, educational purposes, or research in enhancement of public service instead of financial gain.

**X. Commonly Used PeopleSoft General Ledger Accounts**

A. The following table contains a listing of the most commonly used Asset Acquisition Accounts:

<b>PeopleSoft Account</b>	<b>Description</b>
570200	Acquisitions - Buildings
570500	Acquisitions - Land
570800	Acquisitions - Automotive
571000	Acquisitions - Boats & Aircraft
571300	Acquisitions Equipment - Buildings, Grounds & Plant
571600	Acquisitions - Communications Equip
571900	Acquisitions - Computer Hardware
572200	Acquisitions - Computer Software
572500	Acquisitions - Scientific Equipment
572800	Acquisitions - Farm & Heavy Move Equipment
573100	Acquisitions - Household Equipment
573400	Acquisitions - Library Materials
573700	Acquisitions - Medical Equipment
574000	Acquisitions - Office Equipment
574300	Acquisitions - Other Equipment



- B. The following table contains a listing of the most commonly used Major Repairs Accounts:

<b>PeopleSoft Account</b>	<b>Description</b>
575200	Major Repairs - Buildings
575800	Major Repairs - Automotive
576000	Major Repairs - Boats & Aircraft
576300	Major Repairs Equipment - Buildings, Grounds & Plant
576600	Major Repairs - Communication Equipment
577500	Major Repairs - Scientific Equipment
577800	Major Repairs - Farm & Heavy Move Equipment
578100	Major Repairs - Household Equipment
578200	Major Repairs - Library
578700	Major Repairs - Medical Equipment
579000	Major Repairs - Office Equipment
579300	Major Repairs - Other Equipment

- C. The following table contains a listing of the most commonly used Supply Accounts for assets tagged but not capitalized:

<b>PeopleSoft Account</b>	<b>Description</b>
540100	Tagable-Communications Equipment
540103	Tagable-Computer Hardware
540106	Tagable-Computer Software
540109	Tagable-Dental Equipment
540112	Tagable-Scientific Equipment
540115	Tagable-Library Materials
540118	Tagable-Medical Equipment
540121	Tagable-Office Equipment
540124	Tagable-Other Equipment