

WASHINGTON STATE DEPARTMENT OF HEALTH

Accounting and Reporting Manual for Hospitals Chapter 6000



DOH 689-188 January 2025

To request this document in another format, call 1-800-525-0127. Deaf or hard of hearing customers, please call 711 (Washington Relay) or email doh.information@doh.wa.gov.

Table of Contents

- Preface 6001** 3
- Capital Expenditures Budget 6010** 3
- Identification Of Capital Expenditure Needs 6020** 3
- Sources Of Capital Funds 6030** 4
- Review And Approval of Capital Expenditure Requests 6040** 4
- Priority Ranking 6041** 4
- Capital Budget Procedures 6060** 5
- The Capital Budget Summary 6061** 5
- Preliminary Approval of Projects 6062** 6
- Making The Final Estimate 6063** 6

Preface

6001

Concurrent with the preparation of the operating budget, department managers must be working on a plan to ensure that their equipment and facilities' needs will be satisfied. The capital budget is the output from quantification of this plan.

Decisions with respect to capital expenditures are among the most difficult hospital management must answer, primarily because of the long-term nature of these commitments. This commitment factor, coupled with the dollar amounts, makes it imperative that all knowable factors and alternatives be properly evaluated before decisions are made.

Capital Expenditures Budget

6010

Just as the expense budget is a tool to aid short-term planning and control of current operating needs, the capital expenditures budget aids long-term planning and control of long-term and capital needs. A well-planned capital expenditure budget provides assurance that the equipment and facilities needed to support the overall hospital and departmental programs are available at the proper time. In this manner, cash outlays for new assets and the replacement of existing assets are controlled by a planned development program. The capital expenditures budget also facilitates the establishment of priorities for asset acquisition and project selection. Capital expenditures generally are for items which have a use life of more than one year and exceed a certain minimum dollar value. Other items are normally expensed when purchased. The criteria used for distinguishing between capital and operating expenditures for budgeting purposes must be the same as those used in the Accounting and Reporting Manual for Hospitals, (Section 1120) and must be communicated to all department heads. In this manner, the actual operating expenses and capital expenditures recorded in the accounting system and reported monthly to the department head are comparable to budget figures.

The capital expenditures budget is a tool of long-term planning; however, it should span the same period as the long-term plan (a three-year minimum).

Capital expenditures are divided into three broad categories:

1. Land, land improvements, and buildings
2. Fixed equipment
3. Movable equipment.

In addition, the hospital should differentiate new assets from assets being replaced.

Identification Of Capital Expenditure Needs 6020

Since the capital expenditures budget supports the hospital's overall plan, the hospital and departmental objectives (Section 4200) will identify many of the needs for capital outlay for the budget years. In patient care departments, the department manager will want to consult with the medical staff regarding capital acquisition needs.

The purchasing agent's assistance should help define equipment alternatives and estimate related costs. Identification of the total costs associated with each anticipated capital acquisition will greatly enhance the decision-making process. Alternatives can be studied, and more accurate cost estimates secured. Additionally, more favorable terms from suppliers and contractors may also be obtained.

Sources Of Capital Funds

6030

The sources of capital funds are hospital equity, grants, and debt financing. Hospital capital financing has shifted from contributed equity (philanthropy and government investment in public facilities) to greater reliance on debt financing. Not-for-profit hospitals generate internal funds in two ways; (1) by setting aside the reimbursements made for depreciation expenses and (2) excess operating revenues. In addition to funded depreciation, investor-owned hospitals generate a return on equity, and they can raise further equity capital in stock sales. District hospitals, in addition to excess revenues and depreciation reserves, have a direct source of funds through the taxing power of the jurisdiction. The outlook for capital financing is subject to changes in four conditions: the reimbursement system, tax laws, subsidies/philanthropy, and financial markets.

Borrowed funds tend to be used more for the major expansion of facilities, while replacements and improvements are frequently financed from funded depreciation reserves, excess operating revenues, and short-term borrowings. Because of the need to purchase much of the equipment out of operating funds, it is usually necessary to prepare a cash budget before finalizing the capital expenditures budget. If hospital operations cannot adequately generate the funds needed for capital expenditures, other sources of funds will have to be sought or the timing of the capital expenditure will have to be altered. The departmental plans, objectives, and operating budget will have to be adjusted to reflect the change in capital expenditure plans.

Review And Approval of Capital Expenditure Request

6040

The departmental capital expenditure request should be reviewed by the appropriate administrative representative before being sent to the budget committee. This review should cover every facet of the project including cost, other financial and staffing requirements, needs to obtain regulatory agency approvals, necessary facility modifications, etc. All necessary data must be provided to the committee to help ensure a meaningful evaluation and realistic establishment of facility-wide priorities.

Priority Ranking

6041

Capital requests should be assigned a priority within each year. Clear definitions for each priority category and uniform application of these categories will assist later review and ranking of overall hospital capital asset needs.

The degree of priority to be used in capital budgeting could be as follows:

Required For Continual Licensure	A
Required To Implement Approved Objective	B
Construction	C
Generally Desirable	D

Some equipment replacements cannot be postponed to a later date, for instance, the replacement of a malfunctioning life support system in the intensive care area. Urgent and essential categories may lend themselves to effective analysis and justification but may not lend themselves to careful planning.

Capital Budget Procedures

6060

Each department should prepare one capital budget worksheet for equipment requests and one for facilities requests. The worksheets should identify the years covered and include at least three fiscal years. If the department has no capital assets needs during the period covered, they should note that on the forms and return them to the financial officer.

Most departments will have capital asset needs and will list them in order of the year to be acquired and by priority within each year. The priorities listed in Section 6041 are examples of priorities that might be useful to the hospital.

Each item listed in the description column should be supported by a capital asset justification. Some hospitals may prefer to require submission of capital asset justifications only for those items to be purchased or leased during the current budget year.

The capital asset justification includes information on the quantity being requested, a description of the capital asset, the reason for the expenditure, the justification (or reference to the departmental objective), the consequences if the item is not approved as requested, the alternative to its purchase or construction, the estimated cost and source, the expected return on investment if a cost reduction is contemplated, and the recommended disposal of the replaced item. Provision is made on the form for the various approvals that might be required for all equipment needs. Space is also provided for the possible inclusion of an approved authorization number, a reason if rejected, and a reason if deferred along with the year to which it was deferred.

After the worksheet has been completed at the departmental level and the necessary approvals obtained, the capital budget worksheet may go to the controller who will transfer the approved item to the capital budget summary.

The Capital Budget Summary

6061

This summary serves two basic purposes. First, it allows summation of capital asset acquisitions by major classifications; land, plant and fixed equipment, major equipment (that has been capitalized), and leasehold improvements. Secondly, it allows for scheduling of actual cash expenditures for capital assets on a month-by-month basis and identifies the balances financed.

In building up the summary figures, the controller utilizes the capital budget worksheets for each department. Then the department summaries are recapped on an overall hospital basis.

The departmental capital budget summary includes an item-by- item list of the capital asset acquisitions to be made during the budget year. These assets are entered at total acquisition cost. Notations may be used to convey additional information and spell out any financing terms. The cash expenditures and cash down payments are spread by the month of cash outlay. Total amount financed is entered as balance financed. Any payments to the financed balances made during the budget year are not entered as expenditures but are left in the balance financed figure.

Some hospitals may wish to round the expenditures figures to the nearest thousand to simplify calculations both on the capital budget worksheets and summary.

In addition to the capital budget summaries covering the budget year, it is desirable to prepare capital budget summaries covering a longer period. Current management philosophy indicates that this period should cover at least an additional two years. It is preferable that this period coincide with that of the long-range plan. In this manner, the capital budget summary and the Statement of Changes in Financial Position can be utilized to test the financial feasibility of the long-range plan.

Preliminary Approval of Projects **6062**

Preliminary approval of new projects should be obtained by a department head or the board of directors before expending valuable time, effort, and expense in developing a proposal. Presenting the idea, providing approximate estimates of cost, and explaining the reasons for considering the project are essential prerequisites for a successful capital budget program.

Making The Final Estimate **6063**

When the project is approved, final estimates of cost, arrived at with assistance from architects, engineers, contractors, manufacturers, and any other reliable source, should be presented with a complete description of the project. Alternate plans, with descriptions of advantages and disadvantages and their relation to cost, should be included in the presentation. The project must indicate the funding source to finance the project.

Because of the importance of having sufficient cash available to meet capital budget obligations as they occur, it is necessary that the Capital Expenditures Budget be prepared in conjunction with the Statement of Changes in Financial Position.



DOH 689-188 January 2025

To request this document in another format, call 1-800-525-0127. Deaf or hard of hearing customers, please call 711 (Washington Relay) or email doh.information@doh.wa.gov.

Accounting and Reporting Manual for Hospitals
Accounting Principles and Concepts
Chapter 6000