

# INTERSTATE MEDICAL LICENSURE COMPACT

## #7 – Policy on Capital Assets

ADOPTED: **DRAFT**

EFFECTIVE: **DRAFT**

AMENDMENT HISTORY (LIST WHEN AMENDED AND CITE SECTION NUMBER):

- None

### **I. Policy Statement**

The Interstate Medical Licensure Compact (IMLC) Statute Section 12, paragraph (m), states that the Interstate Commission may purchase property and other fixed assets. This policy established how the IMLCC will account for the costs related to obtaining and maintaining the fixed assets, including the process to dispose of the fixed assets.

### **II. PURPOSE**

The purpose of this policy is to:

- Ensure a uniform understanding of the IMLCC's capitalization of fixed assets.
- Establish a methodology of depreciation for fixed assets.

### **III. DEFINITIONS**

**Building** -- Purchase or construction – 50-year life. All direct costs of construction should be included in calculating the capitalized cost of the asset. Direct costs include architect/engineering/legal fees, permits, interest incurred as a result of the building project, as well as actual construction costs. Included with this category are all permanently attached fixtures, machinery, and other components that cannot be removed without damage resulting to the building. If a component can be removed without damage, then it should be considered equipment and not included in the cost of the building. The cost of a building should not be adjusted for repairs, maintenance, or replacement of component parts that do not extend the building's original useful life or significantly enhance its net value. For example, work to maintain buildings in their existing condition, such as painting, repairs, or roof repairs should be expensed in the period in which the work is completed.

**Building Improvements** -- Capitalized if \$15,000 or more – 20-year life. Building improvements are significant alterations, renovations, or structural changes that meets or exceeds \$15,000 and that increase the usefulness of the asset, enhance its efficiency, or prolong its useful life. For example, the complete replacement of a

roof would be capitalized if the cost exceeds the capitalization threshold (\$15,000). Building improvements may include interior or exterior construction of a building or building systems, such as communication wiring, electrical or plumbing systems. They may also include the completion of interior or exterior appointments or finishes, so long as they are done as part of a significant alteration or renovation. Material remodeling or renovation that exceeds \$15,000 in cost should be capitalized as a building improvement. Maintenance, renovations and costs below the threshold should be expensed. It is important to distinguish between an expenditure that is a repair versus an expenditure that is an improvement to extend the useful life of the asset.

**Capital Leasehold Improvements - \$5,000 or greater** – Depreciate for the remaining life of the lease. Construction of new buildings or improvements made to the existing structure by the lessee, who has the right to use these leasehold improvements over the term of the lease. These improvements will revert to the lessor at the expiration of the lease. Moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement.

**Computer Equipment - \$5,000 or greater per unit** – IT equipment that is purchased with a unit price greater than \$5,000 including but not limited to servers, telecommunications equipment, copiers, printers and multi-functional machines are capitalized.

A group of assets that in total cost \$5,000 or more (e.g., 10 computer \$800 each) is not capitalized unless the criteria in the “Exceptions to Per Item Thresholds” are met.

**Equipment & Furnishings - \$5,000 or greater** – 8-year life. Capital equipment/furnishings are a movable or fixed unit of furniture or furnishings, instrument, machine, apparatus or set of articles which generally meets all of the following conditions:

- It retains its original shape and appearance with use.
- It is nonexpendable; that is if the article is damaged or some of its parts are lost or worn out, it is usually more feasible to repair it than to replace it within an entirely new unit.
- It represents a substantial investment of money.
- It does not lose its identity through incorporation into a different or more complex unit or substance.
- It must be non-expendable, tangible personal property having an economic useful life of more than one year.

**Exceptions to Per Item Thresholds** – For new construction, renovations or remodeling projects where the total cost of the furnishing and/or equipment exceeds \$25,000, the \$5,000 threshold is waived for the purchase of moveable equipment and furnishings provided they meet the following requirements:

- During the normal course of business, these items would be expensed solely because they did not meet the IMLCC's \$5,000 capitalization threshold. This exception allows for the capitalization of an original complement of low-cost equipment, furnishings, computer and IT equipment, media and network equipment as part of the outfitting of a tangible capital asset or operational unit, or an expansion, renovation, or remodeling.
- Acquisitions eligible for this exception should be budgeted and expensed using the appropriate accounting code (ACCT) for the capitalization category (i.e. equipment, furnishing, computers, etc.) greater than \$5,000. Expenditures for items that do not meet these requirements should be expensed using the account code for non-capital (less than \$5k).

A record of the individual items must be compiled and submitted for tracking.

If any of the furniture or equipment being replaced is not fully depreciated, the net value would be written off.

**Fixed assets** – Any item purchased, rented, leased by the IMLCC intended for use by the IMLCC staff, contractors, or commissioners to be used for the benefit of the IMLCC.

**Fixed Asset Disposal** – IMLCC equipment cannot be thrown away or discarded. To dispose of an asset, the Executive Director must complete the appropriate forms to record this action. This form must be completed whenever the custody of the fixed asset changes due to the item returned to vendor, traded, junked, missing, stolen or determined to be surplus.

**Internal Use Software** -- Software having the following characteristics:

- The software is acquired, internally developed, or modified solely to meet the entity's internal needs.
- During the software's development or modification, no substantive plan exists or is being developed to market the software externally. A substantive plan to market software externally could include the selection of a marketing channel with identified promotional, delivery, billing and support activities.

**Land improvements** – Capitalized if cost is \$20,000 or more– 15-year life. Land improvements and infrastructure includes assets such as parking lots, fencing, gates, utility distribution systems, cabling and networking between buildings, sidewalks, roads, drainage and sewer systems. All direct costs of construction or alteration should be included in calculating the cost of the land improvement.

Work to maintain land improvements in their existing condition, for example, resurfacing a parking lot or repairing a fence should be expensed.

**Leases** – Accounting standards classify leases as either an operating or capital lease. Capital leases are treated as the acquisition of assets and the incurrence of obligations by the lessee. Operating leases are treated as current operating expenses. All lease agreements must be reviewed and approved by the Executive Director - IMLCC who will determine the classification of the arrangement.

**Media - \$5,000 or greater per unit and/or system** – This includes stand-alone units or a combination of equipment for a system. This includes conference/meeting room media installations where the total cost of the components that make up the media “system” are \$5000 or greater.

**Missing or Stolen Assets** – If an item is identified as stolen or missing the Executive Director must submit a completed Equipment Disposal Form. If the item has been stolen the IMLCC should notify law enforcement and a copy of their report pertaining to a theft should be attached to the form.

Complete the appropriate forms to note this action if IMLCC-owned capital assets are sold, transferred or disposed of. This form does not grant approval to dispose of equipment it only serves to update the capital asset inventory. Upon completion of this form, please forward to the Executive Director.

**Pooled Assets** – A pooled asset is defined as a group of assets (furniture, furnishings, equipment, and fixtures) that individually do not meet the capitalization threshold but are purchased in a large quantity for a specific space that will transform or upgrade the space. The pooled asset method provides for small dollar/large quantity assets to be appropriately reflected on the financial statements without imposing the unnecessary tracking of each asset individually as a practical expedient. All purchases handled under the pooled asset method are to be capitalized into a pool that is given a unique name for tracking purposes. The cost should include full acquisition cost, including, where applicable, such items as design costs, outside installation costs, furniture assembly, freight charges, warehousing, and insurance. The total cost of the pooled assets must be greater than \$25,000.

**Remodeling** - Changing of existing facilities by rearrangement of spaces and their use.

**Renovation** - Rejuvenating or upgrading existing facilities by installation or replacement of materials and equipment and includes, but is not limited to, interior or exterior reconditioning of facilities and spaces, air conditioning, heating, or ventilating equipment.

**Returned/Exchanged Assets** – If the IMLCC returns to a vendor an asset which has been capitalized for either credit or a replacement asset, the IMLCC staff should complete an Equipment Disposal Form and attach a copy of the credit

memo, check received from the vendor, or a copy of the documentation and submit to the Executive Director.

**Software Capitalization** – Capitalization of costs should begin when both of the following occur:

- Preliminary project stage is completed.
- Management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended.

Capitalizable Software costs include:

- External direct costs of materials and services consumed in developing or obtaining internal-use computer software.
- Payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project, to the extent of the time spent directly on the project.
- Interest costs incurred while developing internal-use software. (Interest should be capitalized in accordance with the provision of FASB Statement No. 34, Capitalization of Interest Cost.)
- Upgrades and Enhancements: In order for upgrades and enhancements to be capitalized it must be probable that those expenditures will result in additional functionality.
- General and administrative costs and overhead costs should not be capitalized as costs of internal-use software. These costs include data conversion and migration, as well as training.
- Capitalization should cease no later than the point at which a computer software project is substantially complete and ready for its intended use. Computer software is ready for its intended use after all substantial testing is completed.

**Surplus and Junked Assets** – When the IMLCC determines that an asset is considered to have no remaining useful value, the Executive Director - IMLCC should determine if the asset can be repurposed or disposed of. If the decision is made that there is no repurpose value, the asset can be disposed of in accordance with IMLCC policy. However, the Executive Director must submit a completed Equipment Disposal Form.

#### IV. Stages of Computer Software Development

There are three stages of computer software development:

- Preliminary Project Stage,
- Application Development Stage, and
- Post-Implementation/Operation Stage.

### **Preliminary Project Stage**

During this stage, strategic decisions are made to allocate resources to a new project, performance requirements and system requirements are proposed, vendors are explored and selected. Internal and external costs incurred during this stage are expensed. Examples of costs related to this stage are:

- Conceptual formulation of alternatives
- Evaluation of alternatives
- Determination of existence of needed technology
- Final selection of alternatives

### **Application Development Stage**

Internal and external costs incurred to develop internal-use computer software during this stage should be capitalized. Costs to develop or obtain software for data conversion should also be capitalized. The process of data conversion from old to new systems may include purging or cleansing of existing data, reconciliation or balancing of the old data and the data in the new system, creation of new/additional data, and conversion of old data to the new system should be expensed as incurred. Examples of costs related to this stage are:

- Design of chosen path, including software configuration and software interfaces
- Coding
- Installation to hardware
- Testing, including parallel processing phases

### **Post-Implementation/Operation Stage**

Internal and external training costs and maintenance costs should be expensed as incurred. Examples of costs related to this stage are:

- Training
- Data Conversion
- Application maintenance

## **V. Capitalization Thresholds and Useful Life**

ASSET CATEGORY	THRESHOLD	USEFUL LIFE
Building Improvements	\$15,000	20 yrs.
Land Improvements & Infrastructure	\$20,000	15 yrs.
Building Purchase or Construction	\$25,000	50 yrs.
Construction in Progress		Once completed
Capital Leasehold Improvements	\$5,000	Life of Lease
Equipment/Furnishing	\$5,000	8 yrs.
Pooled Asset - Equipment/Furnishing	\$25,000	8 yrs.
Computers & IT	\$5,000	4 yrs.
Media & Network Equipment	\$5,000	5 yrs.
Internal Use Software		
Minor	\$5,000 – \$50,000	5 yrs.
Major	Over \$50,000	10 yrs.

## **VI. RESPONSIBILITY**

The Treasurer shall be responsible for administering this policy and ensuring that this policy is current, compliant with all statutory requirements and case law, and consistent with other applicable standards. The Treasurer may delegate administration and maintenance of this policy to the Executive Director.