

LEE MEMORIAL HEALTH SYSTEM BOARD OF DIRECTORS POLICY MANUAL

no. 20.09I

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PURPOSE:

To ensure that capital assets have been properly reviewed by the Board, that the delegation of capital expenditure authority is properly identified, that management is performing appropriate monitoring of capital commitments and that capital assets are acquired for the purpose of meeting the mission of the organization.

POLICY:

Annually, the Board of Directors must approve a capital budget that balances the operational, quality and financial goals of the organization. The capital budget shall be prepared under the supervision of the Senior Leadership Council (SLC) and the Board Treasurer and submitted to the Board of Directors at least thirty (30) days prior to requested Board approval.

(1) APPROVED BUDGETED CAPITAL ITEMS/ SUBSTITUTED CAPITAL ITEMS:

The Board of Directors grants the President/CEO or designee the authority to commit to capital expenditures, including facility projects, equipment, new programs (tactics) or outside vendor services involving capital expenditures provided these expenditures were included in the approved capital budget and annual cash flows are sufficient to fund these capital commitments.

Except as provided herein, substitutions for items from the approved capital budget list may be made without prior Board of Directors' approval provided the capital items being substituted are similar in nature, to be used for the same purpose, and of equivalent or lesser cost. If a substitution does not meet these requirements, then the item is considered to be non-budgeted.

All substitutions of facility projects, new programs or services involving capital expenditures must be approved by the Board of Directors.

(2) NON-BUDGETED:

The Board of Directors authorizes the President/CEO or designee the authority to commit to non-budgeted capital items with a cost of \$500,000 or less without prior Board approval as long as the total for capital commitments does not exceed the approved capital budget and annual cash flows are sufficient to fund the capital commitments.

The Board of Directors authorizes the President/CEO or designee the authority to commit to non-budgeted capital expenditures in emergency/disaster situations with subsequent Board of Director approval at the next regularly scheduled meeting of the Board.

Unless otherwise authorized herein, all commitments of non-budgeted capital with a cost in excess of \$500,000 must have prior Board approval.

All non-budgeted facility projects or any new programs or services involving capital expenditures with a cost in excess of \$500,000 must be approved by the Board of Directors. The approval request for the project will include a summary of the project, the total cost and an analysis of the projected financial performance along with assumptions.

(3) FACILITY PROJECTS, EQUIPMENT, NEW PROGRAMS AND OUTSIDE VENDOR SERVICES:

All material changes to a facility project, equipment, new program or outside vendor services involving capital expenditures must be approved by the Board of Directors. A material change occurs when the cumulative costs increase by 10% over the original estimate and more than \$100,000. The President/CEO or designee has the authority to approve any project change of \$100,000 or less.

All facility projects that require the awarding of a professional services design-build contract must still follow the Board's policy relating to such contracts (Policy 20.15 - Design-Build Contracts).

All facility projects, whether financed directly by LMHS, by a third-party or through a lease, must comply with the requirements of this policy.

(4) CAPITAL ASSET DISPOSAL

The Board of Directors grants the President/CEO or designee the authority to dispose of single pieces of equipment with a current market value of \$100,000 or less, at the time of disposal, in any manner that is deemed in the best interest of the System.

Any disposal of a single piece of equipment that exceeds \$100,000 must be approved by the Board of Directors.

(5) MONITORING PROCESS

On a monthly basis, Financial Services will compare the system's cash flow, both actual and budget, to the total capital commitments requested in order to monitor the level of capital authorized. A Capital Status Report, which reports the capital dollars approved, the amount authorized to date and capital budget commitments remaining, will be provided to the Board of Directors as an attachment to the monthly financial statement package.

Each quarter, the CFO will present a Cash Flow Available for Capital report which will allow the Board of Directors to decide if any changes need to be made in the capital budget or capital spending plan to ensure that the overall goals of the organization will be met.

(6) REVISED CAPITAL PLAN:

If cash flow from operations is not being generated sufficient to support the capital spending plan that was approved with the capital budget, management will provide the Board of Directors with a revised capital budget and/or spending plan that fits within the current projections of operating results and cash flows. Cash Flow Available for Capital is calculated by the following:

Excess Revenue over Expenses

(add/subtract) Depreciation & Amortization
(add/subtract) Net (INC)/DEC in Accounts Receivable
(add/subtract) Net INC/(DEC) in Assets & Liabilities
(add/subtract) Principal Payments
= **Total Cashflow**

DEFINITIONS

Capital Budget: The term "capital budget" means a line item detailed list of all items anticipated to be purchased for the subsequent fiscal year along with the capital spending plan which is the planned quarterly allocation of capital commitments.

Facility Project: A facility project is any building construction or remodeling project that will require LMHS to obtain a building permit.

Capital Asset Disposal: The term "disposal" means to relinquish ownership of an asset in a conclusive manner by sale, exchange, transfer, involuntary conversion, abandonment, or donation.