**Section 140.534 Ownership Costs**

Ownership costs are allowable as follows:

a) Depreciation

 Depreciation on care related assets is an allowable cost subject to the following conditions:

1) Depreciation must be computed on a straight-line basis, starting from the date of completion or installation.

2) Depreciation must be based on historical cost of the asset (purchased assets) or fair market value at the time of donation or inheritance of the asset (donated or inherited assets).

3) Depreciation must be spread over the useful life of the asset using the American Hospital Association guidelines followed by Medicare at a minimum.

b) Acquisitions of Fixed Equipment

If an item has, at the time of its acquisition, an estimated useful life of at least two years and a historical cost of at least $2,500, its cost must be capitalized and depreciated over the estimated useful life of the asset using the straight-line method of depreciation. If an item has an historical cost of less than $2,500, or if the item has a useful life of less than two years, its cost must be expensed in the cost report year it was incurred.

c) Betterments and Improvements

Betterments and improvements extend the life, increase the productivity, or significantly improve the safety (for example, asbestos removal) of an asset as opposed to repairs and maintenance that either restore the asset to, or maintain it at, its normal or expected service life. To be capitalized, the betterment or improvement must be $2,500 or more. Generally accepted accounting principles relating to improvements or betterments must be followed in determining the asset valuation. Repair or maintenance of a nature that restores an asset to its original condition but does not extend its useful life is not a betterment or improvement but an expense of that period.

d) Repair Costs

Repair costs restore the asset to normal working condition and expected service life. Single items of repair that cost $2,500 or more and have a life of two years or more are to be considered as capital improvements and depreciated over the useful life of the item. All other repairs must be expensed in the cost report year the cost was incurred. Maintenance costs are always expensed in the cost report year in which they are incurred.

e) Movable Equipment Costs

Single items of movable equipment at a cost of $2,500 or more having an estimated useful life of two years or longer must be capitalized. For cost reporting purposes, the term movable equipment will include all equipment items referred to in the most current edition of the American Hospital Association guidelines followed by Medicare. Items purchased in quantity must also be compared to the $2,500 threshold.

f) Painting and Wallpaper

Painting and wallpapering costs of $2,500 or more in total for the year will be allowed to be capitalized and depreciated over five years. When the cost is fully depreciated, it must be removed from the cost report in the year it becomes fully depreciated. The choice of whether to capitalize these costs must be made at the time the cost report is filed. If total costs are under $2,500 or an election to capitalize and depreciate over five years is not made, the painting and wallpapering costs must be expensed in the year incurred. Once the cost report is properly filed, no changes to the classification of the painting and wallpapering costs will be allowed.

g) Disposal of Assets

For building costs, only capital assets that are specifically identified on the cost report are capable of being removed from the cost report as a retired or disposed of asset. Movable equipment items should be removed from the cost report when they are retired. Depreciable assets may be disposed of through sale, scrapping, trade-in, donation, exchange, demolition, abandonment or involuntary conversions such as condemnation, fire, theft or other casualty. When an asset has been retired from active service but is being held for standby or emergency services, the asset must be reported in the non-care section of the cost report.

h) Central Office Assets

For building costs allocated from a central office, the total cost allocation to an individual facility is limited to five percent of the total building cost for the current owner of the nursing home building. If the current operator leases the building from an unrelated party, the five percent is limited to the Original Building Base Cost as defined in Section 140.570. The central office allocation is not included in the total building cost for the current owner or the Original Building Base Cost that will be used in the five percent calculation. Allocated central office buildings are subject to the standards of Section 140.563.

i) Partnership Assets

 The basis of assets of a partnership are not allowed to be increased due to a partner buyout.

j) Change of Ownership

For any change of ownership after July 18, 1984, the cost basis of any asset for determination of allowable depreciation expense shall be the lesser of the allowable acquisition cost of the asset of the first owner of record on or after July 18, 1984, or the acquisition cost of the asset to the new owner.

(Source: Expedited correction at 31 Ill. Reg. 1745, effective August 18, 2006)