

Frequently Asked Questions Regarding Capital Additions, Improvements, and Replacements (Schedule 10.6)

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Answers to General Capital Schedule 10.6 Questions

What is the Fair Rental Value System (FRVS) and how are costs on Schedule 10.6 incorporated into the FRVS rate?

Per AB1629, a Fair Rental Value System (FRVS) is used to reimburse FS/NF-B's property (capital) costs. Under the FRVS, the Department reimburses a facility based on the estimated current value of its capital assets in lieu of direct reimbursement for depreciation, amortization, interest, rent or lease payments. The FRVS establishes a facility's value based on the age of the facility. The voluntary Schedule 10.6 is intended to collect information on capitalized costs incurred for major capital improvements, modifications or renovations (equal to or greater than \$500 per bed on a total licensed-bed basis), convert allowable costs into an equivalent number of new beds, and effectively lower the age of the facility on a proportional basis for rate-setting purposes.

Is Schedule 10.6 required to be submitted?

No. Schedule 10.6 is voluntary. If your facility chooses to report capital renovations, modifications and improvements made within the cost report period, these costs must meet a "capital threshold" of \$500 per-bed, on a total licensed bed basis. In addition, your facility cannot include costs on schedule 10.6 that have been expensed; costs reported on schedule 10.6 must be capitalized costs.

What is the cost reporting period for Schedule 10.6?

The reporting period for the voluntary Schedule 10.6 is the same period as your facility's OSHPD Report.

Can I alter the worksheet contents, including modifying tab names, adding columns and rows, etc.?

No. Do not alter the tab names or data descriptions in the worksheet. Any altered worksheet formats will be rejected and excluded from the rate calculation. If your facility requires additional line items in order to expand project detail and/or to add additional capital projects to complete the form, contact (916)552-8613 or send an email to supp1629@dhcs.ca.gov for further instructions.

What is the "capital threshold" for my facility?

The "capital threshold" for your facility is calculated by multiplying the number of licensed beds * \$500. The threshold is calculated as a capitalized cost equal to or greater than \$500 per bed, on a total licensed bed basis. For example, if your facility has 100 licensed beds, you may only report projects on Schedule 10.6 with a capitalized cost equal to or greater than \$50,000.

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Where can I find Schedule 10.6 on the website?

Schedule 10.6 is available on OSHPD's website at:
http://www.oshpd.ca.gov/HID/Products/ltc/manual/forms_and_instr.html

Where do I send my completed Schedule 10.6?

Schedule 10.6 is to be submitted to OSHPD during the OSHPD Report Period. Refer to OSHPD website for more information:
http://www.oshpd.ca.gov/HID/Products/ltc/manual/forms_and_instr.html

What is the due date for submitting the Capital Supplemental Schedule to OSHPD?

Schedule 10.6 must be completed and submitted at the same time as your facility's OSHPD Report.

What are the consequences if I don't submit Schedule 10.6 by the due date?

If Schedule 10.6 is not submitted along with your facility's OSHPD Report, it will be assumed that the facility did not elect to participate in the voluntary reporting process. Schedules 10.6 submitted after the due date will not be accepted.

Will Schedule 10.6 data be subject to audit or review?

Yes. Facilities submitting the voluntary Schedule 10.6 should maintain organized documentation to support capitalized renovations, improvements or modifications made during the cost report period. In addition, facilities should maintain supporting documentation to prove that projects meet the facility-specific capital threshold and that detail claimed in Section I, Part B is related to the "project" identified. Documentation, such as reports, depreciation schedules, invoices, workpapers, and supporting information used to prepare Schedule 10.6 must be maintained for a minimum of three years from the date of submission to OSHPD. In the case that audit findings have not been resolved within this time period, documentation must be maintained until such issues are fully resolved (42 CFR §433.32).

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Answers to Section I Questions – Additions and Improvements

If my facility has added beds on several occasions dating back to the construction date, can I include these historical projects in Section I, Part A?

For the 2006/07 rate year, facilities were granted the option of reporting bed additions dating back to the original facility construction date. **This one-time allowance** provided facilities the opportunity to report bed additions over time, resulting in a revised weighted average age for the facility. For current and future rate years, facilities should only report capital additions and improvements during the facility's OSHPD reporting period (ie: for the 2011/12 rate year, cost report period is 2009).

How is a “project” defined in Section I, Part B?

For the purposes of the Capital Schedule 10.6, a “project” is defined as: Construction costs incurred from a completed project that materially altered architectural, structural, mechanical, electrical, and Fire & Life safety details of the existing facility or structure. Further information on capital projects is included in the FREER Manual published by the Office of Statewide Health Planning and Development. Purchases of major items of equipment meeting the definition of a capital addition may be considered within the definition of "project", provided the equipment is related and made in conjunction with a plan that when aggregated meets the \$500 per-bed cost threshold. Small unrelated costs that are accumulated in order to meet the \$500 per-bed cost threshold are **not** considered to be a “project.”

Are patient-related vehicles an acceptable item to include in Section I, Part B – Other Additions or Improvements?

In order for a patient-related vehicle to be allowable on Schedule 10.6, it must meet several requirements: (1) the vehicle use must be solely related to the transportation of residents, (2) the vehicle must be equipped to transport NF-B residents (e.g., wheelchair lifts, ramps, etc), and (3) the portion of the vehicle attributable to NF-B resident use must meet or exceed the facility-specific “capital threshold”. For example, a van purchased for the transportation of assisted living residents cannot be claimed on the NF-B Schedule 10.6, regardless of whether the capitalized costs meets or exceeds the capital threshold (since the van is not used to transport NF-B residents). Facilities must maintain documentation of NF-B usage (e.g., mileage and/or transportation logs), and must be able to support the NF-B-attributable cost reported on Schedule 10.6.

Do all items included in the line item detail in Section I, Part B need to be related to the “project” described in this Section?

Yes. The detail itemized under the Project Description area should be related to the completed project. For example, if your facility project is listed as “Installation of HVAC System”, the itemized detail could include items relating to the installation, such as: A/C unit, electrical work, architect fees, demolition costs, plumbing costs, roofing costs, A/C

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compressor costs, etc. In this example, it would not be appropriate to include unrelated costs for items such as: electric beds, TV, exterior painting, carpeting, etc.

I noticed that there is only room for five “projects” to be reported in Section I, Part B. If my facility undertook more than five projects for the cost report period, how should I report this information?

If your facility had more than five projects meeting the capital cost threshold in the cost report period, please contact (916)552-8613 or send an email to supp1629@dhcs.ca.gov for further instructions. Similarly, if you require additional space for line item detail pertaining to any of your five “projects”, please contact the Department via phone or email. Note that Project 1 on Schedule 10.6 contains additional lines for reporting sub-components of the project, as compared to the more limited line item detail for Projects 2, 3, 4 and 5.

Can my facility include costs as part of a “project” for items that were previously expensed in our accounting system?

No. Items that were previously expensed are not considered acceptable project costs on Schedule 10.6, since they are reimbursed outside of the Fair Rental Value System. These costs are included in the Direct and Indirect Care Non-Labor cost category, and subject to reimbursement ceilings related to this cost grouping.

My facility recently underwent a remodel to upgrade common areas. We purchased several TVs and artwork as part of this remodel. Are these items acceptable to include on Schedule 10.6?

The Medicare principles of reimbursement outlined in the Provider Reimbursement Manual (CMS Publication 15-1) will be used to determine allowable costs for reimbursement purposes. According to the Medicare reimbursement principles, TVs and artwork are subject to reasonable cost limitations, which can be found in the Provider Reimbursement Manual Section 2104.3. As a general rule, TVs may be acceptable if they are located in the facility’s common areas; TVs in patient rooms are not allowable according to Medicare reimbursement principles.

Are items such as printers, copiers and computers acceptable to include on Schedule 10.6 as part of a “project”?

These items may be acceptable to include on Schedule 10.6, depending on the cost of the item, if these items are used for patient care-related activities, and how the items are accounted for in the facility's accounting system. Purchases of minor moveable equipment meeting the definition of a capital addition or replacement (e.g., the equipment has an estimated useful life at the time of the acquisition of at least two years, a historical cost of at least \$5,000 per item) may be considered within the definition of "project", provided the equipment is related to the overall project and purchased in conjunction with a plan that, when aggregated, meets the \$500 per-bed cost threshold. Small unrelated costs that are accumulated in order to meet the \$500 per-bed cost threshold are not considered to be a

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“project.” In addition, any previously expensed item will not be accepted on Schedule 10.6, since they are considered outside of the Fair Rental Value System in the Direct and Indirect Care Non-Labor reimbursement cost category.

My facility recently remodeled and purchased new beds and mattresses. Are these items acceptable to include on Schedule 10.6?

New beds and mattresses are considered replacement assets and should be reported in Section II. However, the following beds and mattresses are not included in the payment rate and should be billed separately and are subject to the limitations of the Medi-Cal regulations: alternating pressure mattresses/pads with motor; therapeutic air/fluid support systems/beds; and variable height beds (Title 22 Regulations § 51511).

Answers to Section II Questions - Replacements

What is considered a “replacement” asset?

A capital replacement is defined as land, buildings, building equipment, major moveable equipment and leasehold improvements that are considered a replacement of a previously acquired asset. A replacement is an asset that fills the place, position or purpose once filled by an asset that has been lost, destroyed, discarded or is no longer usable or adequate. Replacement assets will have an accompanying retired asset, which must be reported on Section II, Part B of Schedule 10.6.

If my facility did not replace or retire any assets, do I still need to complete Section II of the report?

No. If your facility did not replace or retire assets during the cost report period, you can leave this section blank.

Do replacements need to meet the facility-specific “capital threshold”?

Yes. Replacement assets need to have a capitalized cost equal to or greater than \$500 per bed, on a total licensed bed basis. Replacement assets that do not meet the threshold should not be included on Schedule 10.6.

**DO NOT ATTEMPT TO COMPLETE THE CAPITAL SUPPLEMENTAL
SCHEDULE WITHOUT FIRST CAREFULLY READING THE INSTRUCTIONS.**