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POLICY

This policy applies to The Johns Hopkins Health System Corp. (JHHS) and the following affiliated entities: The Johns Hopkins Hospital (JHH), Johns Hopkins Bayview Medical Center (JHBMC), Howard County General Hospital (HCGH), Johns Hopkins Community Physicians (JHCP), Johns Hopkins Medical Services Corporation (JHMSC), Johns Hopkins Medicine International (JHMI), Ophthalmology Associates (OA), Johns Hopkins Employer Health Programs (EHP), Johns Hopkins Medical Management Corporation (JHMMC), Priority Partners (PP), Johns Hopkins Pharmaquip, Inc. (JHPQ), Johns Hopkins Home Health Services, Inc. (JHHHS), Johns Hopkins Pediatrics Home, Inc. (JHPAH), Johns Hopkins HealthCare (JHHC), Johns Hopkins Home Care Group (JHHCG), Suburban Health Center (SHC), Broadway Acquisition and Development, and HCGH OB/GYN Associates Series, LLC (HCGH OBGYN).

Each fiscal year, capital funds are budgeted as part of the overall JHHS and affiliates budget process (see JHHS Finance Policy No. FIN084 – Capital Budgeting). Expenditures for items that cost in excess of \$5,000 and have a useful life of two or more years are considered capital. Items may also be aggregated to get to the \$5,000 minimum, if they meet the following criteria:

1. The items are part of a set, which would not generally be used separately. For example, a conference room table and chair set could be capitalized provided the total purchase was greater than \$5,000 and the useful life was two or more years. However, a set of office furniture (desk, credenza, chair, etc.) would not be capitalized because the components can be used separately.
2. Multiple units of the same item are purchased, where each item costs less than \$5,000 and has a useful life of two or more years and the total of the purchase is \$50,000 or greater. An example of this would be a planned replacement of hospital beds, where the total purchase is \$50,000 or more.

In addition to the above requirements, equipment or furniture that is purchased as part of a renovation or new construction project can be capitalized as part of the renovation or new construction project even if the furniture or equipment cost is less than \$5,000 provided the overall renovation or new construction project meets the capitalization criteria.


The budgeting process breaks down the capital budgets into several different types as defined below, each with its own budgeting and allocation methodology. Although the funding of capital purchases can come from any of the types defined below, each of these types can be classified into major or minor capital depending on the value of the purchase. This major or minor classification determines the appropriate procedures for purchasing and signature authority (see Finance Policies FIN005 – Minor Capital Signature Authority, FIN006 – Major Capital Signature Authority, and FIN030 – Capital Acquisitions).

Major Capital

Major capital items are defined as expenditures which are greater than \$50,000 and meet the capital requirements above. Departments are allocated major capital funds for a committed multi-year project or asset acquisition through specific requests made and approved during the annual capital budget process.

Minor Capital

Minor capital items are defined as expenditures that cost between \$5,000 and \$50,000 and meet the capital requirements above. Minor capital is generally budgeted as a total amount for the specific entity

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and approved through the annual capital budget process. This total is then allocated to specific departments based on the following criteria:

1. Average four year historical spending for the department,
2. Department fiscal year operating budget,
3. Net book value of department assets less than \$50,000.

Not all JHHS and affiliate entities budget minor capital as a total amount to be allocated to the various departments. For those entities that do not budget in this way, minor capital should be included in the annual capital budget process on a specific project or asset acquisition basis, similar to major capital.

Contingency Capital

Contingency capital is funds available for unanticipated needs that are financially and/or clinically justified. Similar to minor capital, contingency capital is budgeted in total and approved through the annual budget process. As unforeseen needs arise, requests are made from the various departments to use this capital.

At JHH or JHHS, requests are reviewed by both the Capital Administrator and Facilities for approved budget prior to being forwarded to the Capital Budget Committee Workgroup (CBCW) or affiliate equivalent. The CBCW will make recommendations and forward to Senior Management for formal approval or denial. At JHBMC, requests will be reviewed and approved by the JHBMC Capital Administrator. At HCGH, requests will be reviewed and approved by the Vice President of Finance or the Chief Executive Officer (CEO).

Not all JHHS and affiliate entities budget for contingency capital. If unanticipated needs arise and there is no contingency capital, capital should be re-allocated among the approved capital projects in order to satisfy the need. However, the capital spending that was approved in the annual capital budget process must not be exceeded. The projects, from which the capital was re-allocated, must be re-approved in the following year's annual capital budget process.

Designated Funds


Designated funds are awarded to a particular department for various reasons. An example could be the proceeds from a seminar that was conducted by that department. In order to use designated funds, the department must have the funds available to them and the use must be approved in the annual capital budget process. These funds do not apply to all entities.

Contribution Margin

Contribution margin funds are awarded based on the past performance of the department as compared to established targets. In order to use contribution margin capital, the department must have the funds available to them and the use must be approved in the annual capital budget process. These funds do not apply to all entities.

Active Projects

Active projects are previously approved capital projects that were not completed in the year in which the capital budget was approved. The proposed spending on these projects is budgeted each year as part of the annual capital budget process.

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Landlord

Landlord funds are used for capital purchases for common areas. These funds are based on the historical spending and are approved in the annual capital budget process. These funds do not apply to all entities. The use of landlord funds must be approved by the CBCW or affiliate equivalent.

REFERENCE

JHHS Finance Policies and Procedures Manual


Policy No. FIN005 - Signature Authority: Minor Capital Requisitions

Policy No. FIN006 - Signature Authority: Major Capital Requisitions

Policy No. FIN084 - Capital Budgeting

RESPONSIBILITIES

- | | |
|---|---|
| <p>President (JHCP)
Capital Administrator (JHBMC)</p> | <ul style="list-style-type: none"> • Approve use of capital and contingency funds. |
| <p>Functional Unit Administrator/
Functional Unit Director/
Department Manager/Site
Manager/ Vice President</p> | <ul style="list-style-type: none"> • <u>Contact Supply Chain Services and the JHHS Capital Administrator, to assist in negotiations, RFP generation and analysis once a need for equipment is identified.</u> • Review and approve capital requests for their department. • Develop the rationale and financial justification for minor capital and contingency requests (including Supply Chain Services Center and the JHHS Capital Administrator) (VP, Administration at JHBMC). Complete a JHH/JHHS PROJ or CAPP type document shopping cart (depending on the affiliate) for Purchase/Lease of capital. |
| <p>Facilities</p> | <ul style="list-style-type: none"> • Co-Chair the Capital Budget Committee Workgroup Committee (JHH) with Finance. • Review and submit requests for non-major capital requests to the Capital Budget Committee Workgroup or affiliate equivalent (VP, Administration, JHBMC; VP of Finance or the CEO, HCGH). • Review JHH/JHHS PROJ or CAPP type (depending on affiliate) document shopping cart for Purchase/Lease Order form, inform accounting of the project and forward the paperwork for signatures. Once signatures are obtained, forward request to Supply Chain Services Center. • Review capital requests with the Capital Administrator and make recommendations to the Capital Budget Committee Workgroup • Recommend allocations of minor capital to Capital Budget Committee Workgroup. |

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|---|---|
| <p>Capital Budget Committee Workgroup
(or affiliate equivalent)</p> | <ul style="list-style-type: none"> • Review and make recommendations on annual capital allocations. • Review capital requests, except major and minor, and send recommendations to senior management capital committee. |
| <p>Manager, Budgeting & Expense</p> | <ul style="list-style-type: none"> • Transfer operating funds into requesting department's budget, when appropriate. |
| <p>Corporate Legal Department</p> | <ul style="list-style-type: none"> • Prepare purchase and sale agreements, if applicable. • Review any contract submitted by a vendor. |

SPONSOR

Vice President of Finance/Treasurer & CFO, JHHS & JHH


CYCLE REVIEW

Three (3) years

APPROVAL

President, JHHS


Date

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PROCEDURES – ANNUAL BUDGET APPROVED MAJOR CAPITAL


- | | |
|--|---|
| <p>Functional Unit Administrator/ Dept. Manager/Site Manager</p> | <ul style="list-style-type: none"> • Contact Supply Chain Services Center and the JHHS Capital Administrator, to assist in, RFP generation, analysis, life-cycle-management review and negotiations once a need for an item is identified. • Complete and sign a JHH/JHHS PROJ or CAPP type (depending on affiliate) document shopping cart for Purchase/Lease and complete the standard capital forms and justification analysis. • Forward request to Facilities (or affiliate equivalent) for review, recommendation and disposition (or affiliate equivalent). • Obtain signature of the Supply Chain Services Center (except for facilities contracts). • Obtain signature of Capital Item User. • Forward completed order form to Facilities (or affiliate equivalent) for entry into <i>Fund Manager</i> for tracking. |
| <p>Capital Budget Workgroup (or affiliate equivalent)</p> | <ul style="list-style-type: none"> • Review and make recommendations on annual capital allocations. |
| <p>JHHS Capital Administrator (or affiliate equivalent)</p> | <ul style="list-style-type: none"> • Assist department with analysis, life-cycle management, negotiations and lease v buy (FASB13) analysis. • Forward to Legal Department those approved requests requiring legal review as identified in the policy statement and any contract submitted by a vendor. • Review MD-Buyline for requests with Supply Chain Services Center |
| <p>Corporate Legal Department</p> | <ul style="list-style-type: none"> • Review approved requests. |
| <p>Facilities (or affiliate equivalent)</p> | <ul style="list-style-type: none"> • Comply with Finance Policy No. FIN005. • Forward order form to Supply Chain Services Center with approved contract, if applicable. • Work with Finance to have funds allocated to projects. |
| <p>Finance</p> | <ul style="list-style-type: none"> • Allocate approved funds to projects |

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PROCEDURES – ANNUAL BUDGET APPROVED MINOR CAPITAL


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| <p>Functional Unit Administrator/ Dept. Manager/Site Manager</p> | <ul style="list-style-type: none"> • Contact Supply Chain Services Center and the JHHS Capital Administrator, to assist in, RFP generation, analysis, and negotiations once a need for an item is identified. • Complete and sign a JHH/JHHS PROJ or CAPP type (depending on affiliate) document shopping cart for Purchase/Lease Order form and complete the standard capital forms and justification analysis. • Forward request to Facilities (or affiliate equivalent) for review, recommendation and disposition (or affiliate equivalent). • Obtain signature of the Supply Chain Services Center. • Obtain signature of Capital Item User. • Forward completed order form to Facilities (or affiliate equivalent) for entry into <i>Fund Manager</i> for tracking. |
| <p>Capital Budget Workgroup (or affiliate equivalent)</p> | <ul style="list-style-type: none"> • Recommend minor capital allocations to Senior Management. |
| <p>Capital Administrator (or affiliate equivalent)</p> | <ul style="list-style-type: none"> • Assist department with analysis, life-cycle management, negotiations and lease v buy (FASB13) • Forward to Legal Department those approved requests requiring legal review as identified in the policy statement and any contract submitted by a vendor. • Review MD-Buyline for requests with Supply Chain Services Center |
| <p>Corporate Legal Department</p> | <ul style="list-style-type: none"> • Review approved requests. |
| <p>Facilities (or affiliate equivalent)</p> | <ul style="list-style-type: none"> • Comply with Finance Policy No. FIN005. • Forward order form to Supply Chain Services Center with approved contract, if applicable. • Performs allocations of minor capital and makes a recommendation to the Capital Budget Committee Workgroup. • Work with Finance to have funds allocated to projects. |
| <p>Finance</p> | <ul style="list-style-type: none"> • Allocate approved funds to projects |

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PROCEDURES – CONTINGENCY CAPITAL

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| <p>Functional Unit Administrator/ Dept. Manager/Site Manager</p> | <ul style="list-style-type: none"> • Contact Supply Chain Services Center and the JHHS Capital Administrator, to assist in negotiations, RFP generation and analysis once a need for a capital item is identified. • Complete and sign a JHH PROJ or CAPP type (depending on affiliate) document shopping cart, Capital Project request form, and provide a justification analysis along with an MD Buyline analysis for all capital items. (or affiliate equivalent). • Submit to Functional Unit Director for review. • If approved, sign and forward request to Facilities (or affiliate equivalent) and Finance. |
| <p>Facilities</p> | <ul style="list-style-type: none"> • Review request and recommendation and forward to the Capital Budget Committee Workgroup (or affiliate equivalent). • Forward to Legal Department those approved requests under \$50,000 requiring legal review as identified in the policy statement and any contract submitted by a vendor • Track resolution and encumber funds. • Notify Functional Unit Administrator that funding approval/denial has occurred and that a JHH/JHHS CAPP type shopping cart for Purchase/Lease should be initiated. • Forward order form to Supply Chain Services Center with purchase contract, if applicable |
| <p>Capital Budget Workgroup (or affiliate equivalent)</p> | <ul style="list-style-type: none"> • Review contingency capital requests and send recommendations to senior management capital committee. |
| <p>Corporate Legal Department</p> | <ul style="list-style-type: none"> • Review approved requests requiring Legal review. |
| <p>COO/CEO</p> | <ul style="list-style-type: none"> • Review Capital Budget Committee Workgroup Committee (or affiliate equivalent) recommendations and take appropriate action (approve, deny or return for further justification). • Return request to Facilities and Finance for appropriate processing as major or minor capital (see major and minor capital procedures above). |
| <p>VP, Facilities (or affiliate equivalent)</p> | <ul style="list-style-type: none"> • Submit Capital Fund Status Report (or affiliate equivalent) to COO/CEO. |

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Finance

- Review requests for capital use.
- Forward a listing of capital requests to the Capital Budget Workgroup Committee.
- Perform life-cycle management review and financial acquisition methodology analysis.

PROCEDURES – DESIGNATED FUNDS

- Functional Unit Administrator/ Dept. Manager/Site Manager • Follow procedures for major or minor capital, depending on the classification of the item(s) to be acquired.
- Capital Projects Executive Assistant • Maintain available designated funds calculations.
- Verify the availability of the designated funds for the department during the annual budget process.

PROCEDURES – CONTRIBUTION MARGIN

- Functional Unit Administrator/ Dept. Manager/Site Manager • Follow procedures for major or minor capital, depending on the classification of the item(s) to be acquired.
- Finance • Maintain available contribution margin funds calculations.
- Verify the availability of the contribution margin funds for the department during the annual budget process.

PROCEDURES – ACTIVE PROJECTS

- Functional Unit Administrator/ Dept. Manager/Site Manager • Follow procedures for major or minor capital, depending on the classification of the item(s) to be acquired.

PROCEDURES – LANDLORD

- Functional Unit Administrator/ Dept. Manager/Site Manager • Follow procedures for major or minor capital, depending on the classification of the item(s) to be acquired.