

STATE OF MINNESOTA
OFFICE OF ADMINISTRATIVE HEARINGS

FOR THE MINNESOTA DEPARTMENT OF HUMAN SERVICES

In the Matter of the
Expedited Rate Appeal of
Redeemer Residence, Inc.,
Provider No. 002 160X.

DECISION

The above-entitled matter came on before Administrative Law Judge George A. Beck without a hearing pursuant to the expedited rate appeal process set out in Minn. Stat. 256B.50, subd. Id. (1988).

Written argument was filed on behalf of Redeemer Residence, Inc. ("the Provider") by Michael D. McConnell, CPA, of the firm of Larson, Allen, Weishair and Co., 1800 Interchange Tower, 600 South County Road 18, Minneapolis, Minnesota 55426. Written argument was filed on behalf of the Department of Human Services by Melane A. Milbert, Staff Attorney, Provider Appeal Division, Department of Human Services, 444 Lafayette Road, Fifth Floor, St. Paul, Minnesota 55155-3841. The final written submission by the Provider was received on January 19, 1989 on which date the record closed.

Pursuant to Minn. Stat. 256B.50, subd. Id.(d), this decision is the final administrative decision and is not appealable.

STATEMENT OF ISSUE

The issue in this case is whether the sum of \$6,350 spent by the Provider for repair of a grand piano should be classified an expense or whether it should be capitalized for the purposes of the Provider's rate determination.

DISCUSSION

In July of 1987 the Provider paid a piano tuning and restoration company the sum of \$6,350 to rebuild and refinish a Baldwin grand piano located at the facility. The rebuilding of the piano accounted for \$3,960 of the bill while \$2,200 of the bill was for refinishing the case and bench of the piano. The Provider reported this cost as a repair to be allowed as an expense for rate determination purposes. The Department disallowed this item as an expense and proposed instead that it be capitalized. The Provider then properly perfected an appeal under Minn. Stat. 256B.50, subd. Id. (1988).

The Provider argued that this piano repair cost should be classified as an

equipment repair since the costs were incurred to restore an existing capital asset to sound condition after damage and malfunction or to maintain an existing capital asset in a usable condition. It stated that the piano is used by and for the residents and is therefore related to resident care.

In

its submission the Department argued that the piano renovation should be treated as the cost of acquiring equipment since it was a renovation so

extensive as to be the same as the acquiring of new equipment. The Department suggests that a piano and even a new grand piano can be purchased for less than \$6,000. It asserts that Rule 50 requires that allowable costs must be for necessary goods acquired in a cost-conscious fashion. The Department also argued however, that if this renovation is characterized as equipment repair, capitalization is still required if the repairs were over \$500 and extend the original useful life of the piano by at least two years.

In its reply the Provider argued that the repair costs were incurred to restore a workable piano to sound condition after years of use and that they therefore were ordinary repairs that were simply accumulated and performed at one time. It suggested that capitalization under the \$500/two years useful life rule was inappropriate since the repairs were necessary due to ordinary use.

A repair is defined as the "cost of labor and materials needed to restore an existing capital asset to sound condition after damage or malfunction or to Maintain an existing capital asset in a usable condition." Minn. Rule 9549.0020, subp. 39. Minn. Rule 9549.0060, subp. 12 provides that the cost of purchasing pr_repairing capital assets must be capitalized in accord with the following:

- B. The nursing home may consider as an expense a repair that costs \$500 or less. Repairs that are considered as an expense must be classified in the plant operation and maintenance cost category. If the cost of a repair to a capital asset is \$500 or more, and the estimated useful life of the capital asset is extended beyond its original estimated useful life by at least two years, or if the productivity of the capital asset is increased significantly over its original productivity, then the cost of the repair must be capitalized.

In its final submission the Provider argues that if the repairs are for ordinary use, capitalization under Rule 9549.0060, subp. 12B. does not apply. However, a repair is defined as the cost of maintaining an existing capital asset in a usable condition. 9549.0060, subp. 12 provides that repairs under \$500 may be expensed. If the repair is over \$500 it must be capitalized if the useful life is extended by at least two years. Contrary to the Provider's

arguments, repairs for maintaining an asset clearly are capitalized in certain instances. The Rule does not specifically address repairs over \$500 which do not extend the useful life. The intent of the Rule appears to be to require capitalization of a repair cost when the repair is extensive and amounts to a reconstruction so as to extend the life of the capital asset beyond what it normally would be. The Provider, which has the burden of proof, did not address the Department's argument that the useful life was extended by at least two years in this case.

In reviewing the filings it appears that the repairs in this case were not minor. The statement from the piano tuning and restoration firm describes \$3,960 of the repairs as a rebuilding. Although the written estimate provided to the Facility is difficult to read it includes eight lines of repairs to the sound board, the bridges, installing new parts, restringing and replacing hammers. The refinishing of the case and bench which was listed as an optional on the estimate amounted to a cost of \$2,200. The Department points

out in its written submission that this repair cost is quite high given the fact that a replacement piano could be purchased for that price. They contend that when repairs exceed the cost of acquiring a new asset they should be capitalized. Although there is nothing in the record to indicate the age of this piano, it must be concluded that this extensive reconstruction and refinishing will extend the useful life by at least two years. The size of the repair bill, the characterization of the repair as a rebuilding as well as the extensive listing of individual repairs or replacement of items compels the conclusion that this cost is properly capitalized under Minn. Rule part 9549.0060, subd. 12A.

DECISION

The appeal of the Provider is DENIED and the Department of Human Services is ordered to capitalize the \$6,350 spent by the Provider for the repair of a grand piano.

Dated: January 1989.

GEORGE A. BECK
Administrative Law Judge