ACCOUNTING PRINCIPLES (Cont'd)

the replacement of assets, reduction of debt or payment of operating expenditures it will be reported as a transfer from the appropriate plant replacement and expansion fund balance to the unrestricted fund balance.

ARTICLE 28A NURSING HOMES

Many nursing homes have been organized under Article 28A of the Public Health Law and have been/are subject to the accounting treatment described in the Accounting Manual for Nursing Home Companies published by the New York State Department of Health. Certain accounting procedures set forth in the Article 28A manual were promulgated to reflect reimbursement policies rather than Generally Accepted Accounting Principles (GAAP). The Residential Health Care Facility Accounting and Reporting Manual, as of its effective date, will provide the accounting policies and procedures to be followed by all homes for the purpose of reporting to the State under this manual.

The major differences in accounting treatment between this Manual and the 28A Manual have been set forth below:

(A) An Article 28A nursing home accounts for a Development Period which is the period from the inception of the nursing home to the day preceding the permanent financial occupancy date. Included in the development period is an initial occupancy period which is the period commencing with the first of the month prior to the admission of the first patient, and ending with the day preceding the permanent financial occupancy date.

ACCOUNTING PRINCIPLES (Cont'd)

The permanent financial occupancy date is declared by the Commissioner of Health or his designee after a facility has had patients for several months. The development period may be as long as several years.

During the development period, certain costs including interest, architect fees, legal fees, accounting fees, etc., are recorded as other development period costs and are capitalized and included on the facility's balance sheet. After receipt of the permanent financial occupancy date, these costs are depreciated over a determined period of time.

For the purpose of reporting to the State under this manual, these development period costs must be allocated to the project assets and depreciated over the life of the respective assets. For example, assume the following:

a) Building cost - $1,000,000 Average life 40 yrs.

b) Fixed Equipment Cost - $500,000 Average life 25 yrs.

c) Major Moveable Equip. Cost - $500,000 Average life 10 yrs.

d) Total other development period costs - $100,000

The computation would be as follows:

ACCOUNTING PRINCIPLES (Cont'd)

	Cost	% of Total		Development Period Cost		Amount Allocated	Life
Building	$ 1,000,000	50%	X	100,000	=	50,000	40 yrs.
Fixed Equip.	500,000	25%	X	100,000	=	25,000	25 yrs.
Major Mov. Equip.	500,000	25%	X	100,000	=	25,000	10 yrs.
	$ 2,000,000					100,000	

In the above example $50,000 of the other development period costs would be depreciated over 40 years, $25,000 depreciated over 25 years, and $25,000 depreciated over 10 years.

(B) The Accounting Manual for Nursing Home Companies suggests that retroactive adjustments from third-party payors be recorded as other operating revenue. As stipulated in the Hospital Audit Guide published by the American Institute of Certified Public Accountants, Generally Accepted Accounting Principles requires retroactive adjustments from third-party payors to be recorded as an adjustment to the contractual allowance account(s).