ACCOUNTING PRINCIPLES (Cont'd)

The cost of minor equipment is to be reported in accordance with Medicare regulations.

Interest Expense During Period of Construction

Frequently, nursing homes borrow funds to construct new facilities or modernize and expand existing facilities. Interest costs incurred during the period of construction must be capitalized as a part of the cost of the construction. The period of construction is considered to extend to the date the constructed asset is put into use.

When proceeds from a construction loan are invested and income is derived from such investments during the construction period, the amount of interest expense to be capitalized must be reduced by the amount of such income.

Depreciation Policies

Depreciation on plant assets used in the nursing home's operations should be recorded as an operating expense in the Unrestricted Fund. The straight-line method of depreciation must be used for uniform reporting.

The estimated lives used in computing depreciation should be taken from the recommendations made in the Estimated Useful Lives of Depreciable Hospital Assets published by the American Hospital Association (copyright, 1973), or

ACCOUNTING PRINCIPLES (Cont'd)

other acceptable sources. However, with the rapidly changing technology in nursing homes, these recommendations may not be all-inclusive; in which case, the expertise of the manufacturer or other reliable source may be considered subject to approval by the New York State Office of Health Systems Management.

Each nursing home must establish, and consistently follow, a policy relative to the amount of depreciation to be taken in the year of acquisition on normal annual additions. Examples of acceptable policies are:

- Recording first year depreciation based upon the number of actual months the asset was in use during the first year.
- Recording one-half of the annual depreciation expense in the years of acquisition and disposal, regardless of the date of acquisition.
- Recording no depreciation in the year of acquisition and a full year's depreciation in the year of disposal.
- Recording a full year's depreciation expense if the asset was acquired in the first half of the year. If the asset was acquired in the last half of the year, no depreciation expense would be recognized in the year of acquisition.

The above alternatives are acceptable for normal annual additions to plant assets. However, when major construction projects are completed and