

**Statutory Issue Paper No. 101**

**Health Care Delivery Assets—Furniture, Medical Equipment and Fixtures,**

**DISCUSSION**

7. Furniture, medical equipment and fixtures and leasehold improvements in health care facilities owned or operated by the reporting entity used in the direct delivery of health care are admitted assets as defined in this issue paper because they are used to fulfill benefit requirements.
8. The AICPA Audit and Accounting Guide: Health Care Organizations is rejected in

12. The Health Maintenance Organization Model Act, dated July 1995 states the following:

**Section 5. Powers of Health Maintenance Organizations**

- A. The powers of a health maintenance organization include, but are not limited to, the following:
- (1) The purchase, lease, construction, renovation, operation or maintenance of hospitals, medical facilities, or both, and their ancillary equipment, and property reasonably required for its principal office or for purposes necessary to the transaction of the business of the organization;

**Section 12. Investments**

With the exception of investments made in accordance with Section 5A(1), the funds of a health maintenance organization shall be invested only in accordance with [cite section of law or regulation implementing the NAIC Health Maintenance Organization Investment Guidelines.]

**Generally Accepted Accounting Principles**

13. The AICPA Audit and Accounting Guide: Health Care Organizations states the following:

6.01. Health care organizations use various types of property and equipment. Those assets may be material to the financial position of institutional health organizations, such as hospitals and nursing homes. Typical accounts used to record property and equipment transactions are land, land improvements, buildings and improvements, leasehold improvements, equipment (fixed and movable), leased property and equipment, accumulated depreciation and amortization, and construction in progress.

6.04. Accounting for property and equipment, supplies, and other assets of health care organizations is similar to that used by other business organizations.

6.05. Depreciation and amortization of property and equipment are recorded in conformity with GAAP. Useful lives assigned to depreciable assets should be reasonable, based on the circumstances. The American Hospital Association publishes useful guidelines for classifications and estimated useful lives for property and equipment used by hospitals. Those guidelines also may be useful to other health care organizations. If there is a potential that an asset is impaired, health care organizations should consider the guidance in *FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of*.

**Other Sources of Information**

14. The NAIC Survey on State Practice Regarding Admissibility of Health Care Delivery Assets dated January 1996 conducted by the Risk Based Capital Task Force surveyed the state insurance departments that regulate HMOs to determine if and to what degree that they allow HMOs to admit health care delivery assets. Responses from 38 state insurance departments indicated that the vast majority admit such assets at book value. A number of state insurance departments noted that they do place varying limits on the amount of certain health care delivery assets that can be admitted. However, none of the respondent states indicated that they did not admit such assets.

**RELEVANT LITERATURE**

**Statutory Accounting**

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy
- The Accounting Practices and Procedures Manual for Health Maintenance Organizations, Chapter 5, and Chapter 6,
- Health Maintenance Organization Model Act, dated July 1995
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**Generally Accepted Accounting Principles**

- The AICPA Audit and Accounting Guide: Health Care Organizations

**State Regulations**

- No additional guidance obtained from state statutes or regulations.

**Other Sources of Information**

- NAIC Survey on State Practice Regarding Admissibility of Health Care Delivery Assets dated January 1996
- American Academy of Actuaries Report on Simplification of the Health Risk-Based Capital Formula dated June 1996