HOSPITALS: ACQUISITION OF MEDICAL GROUPS

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I. INTRODUCTION

The acquisition of medical groups is one component of the University's plan to ensure that its medical centers remain competitive in the rapidly changing healthcare marketplace and that their educational and research missions are preserved. In addition to the debt incurred in acquiring a medical group, the acquisition may require the assumption of the group's outstanding debt and the purchase of both tangible and intangible assets.

This chapter establishes the procedures to be followed in recording and reporting these acquisition costs.

II. PROCEDURES

A. RECORDING THE INITIAL PURCHASE

l) Prior to the transfer of assets, an independent appraisal shall be commissioned by the medical center to determine the fair market value of the assets to be acquired.

2) The initial purchase of either tangible or intangible assets shall be recorded in Unexpended Plant Funds in order to treat acquisition of the assets and liabilities similar to the treatment of other capital purchases.

The campus shall transfer campus funds to Unexpended Plant and/or record borrowed funds in Unexpended Plant. The disbursement must be recorded in the 9XXXXX expenditure accounts. Acquired assets and liabilities associated with Current Funds can be integrated into operations during the fiscal year or at fiscal year end closing. During closing, the balance of the Unexpended Plant expenditures accounts will be closed out to Investment In Plant Funds.

B. RECORDING TANGIBLE ASSETS

Both non-capital assets (i.e., cash, receivables, and inventory) and current liabilities (i.e., accounts

II. PROCEDURES (Cont.)

B. RECORDING TANGIBLE ASSETS (Cont.)

payable) shall be recorded in Current Funds. The offsetting credit shall be either to Fund Balance, if financed with University proceeds, or to Due to Investment in Plant, if financed from borrowed funds, or to both accounts if warranted by the circumstances. The entry shall be made as follows:

Dr.	Non-Capital Assets	X-11XXXX
Cr.	Current Liabilities	X-115XXX
Cr.	Fund Balance	X-119XXX-XXXXX-0520
	and/or	
Cr.	Due to Investment in Plant	X-1159XX

The campus shall make an offsetting entry to Unexpended Plant funds. Transaction code 3000 shall be used for the amount funded from University funds and/or transaction code 1550 for the amount funded from borrowed funds. The entry shall be made as follows:

Dr.	Fund Balance	X-10XXXX-0XXXX-3000
	and/or	
Dr.	Fund Balance	X-101XXX-01XXX-1550
Cr.	Plant Expenditure	X-9XXXXX-0XXXX

Capital assets shall be closed to Investment In Plant as a normal closing step, as follows:

Dr.	Fund Balance	X-1XXXXX-0XXXX-2000
Cr.	Plant Expenditure	X-9XXXXX-0XXXX
Dr.	Land, Building & Equipment	X-1018XX
Cr.	Fund Balance	X-101990

The value of land and buildings shall be recorded based on the fair market value determined by the independent appraisal. The value for capitalizable equipment, also based on the fair market value determined by the independent appraisal, shall be recorded in the Equipment Register. Capitalizable equipment that is not recorded in the Equipment Register must be written off or included in account 101815, Non-Inventoried Hospital Standard Furniture or account 101816, Non-Inventoried Capitalized Items--Hospital. The entry shall be made as follows:

Dr.	N/I Hospital Furniture	X-101815
Dr.	N/I Capitalized Items	X-101816
Cr.	Fund Balance	X-101990

C. RECORDING INTANGIBLE ASSETS

Intangible assets include, but are not limited to, the following: goodwill, going concern value, work force in place, patents and copyrights, customer list/following, franchises, and covenants not to compete. These costs are capitalizable and shall be recorded in a *new* Investment In Plant account 101890 or 101891, entitled Intangible Assets, as follows:

Dr.	Intangible Assets	X-10189X-XXXX
Cr.	Fund Balance	X-101990

These costs shall be amortized over the useful life of the asset and written off when the assets no longer have any imputed value. The amortization of these costs, using the straight line method, should be for a period no less than two years but no more than 15 years. The campus should evaluate the periods of amortization annually to determine whether later events and circumstances warrant a revised estimate of useful lives. If estimates are changed, the unamortized cost shall be allocated to the number of remaining periods, but not to exceed 15 years after acquisition.

The campus shall record this amortization by decreasing the asset value each year as follows:

Dr.	Fund Balance	X-101990
Cr.	Intangible Assets	X-10189X-XXXX

The costs incurred by a medical center in entering into acquisition contracts with a medical group should be recorded in plant funds or current funds and capitalized in Intangible Assets. Costs of $100,000 or more associated with hiring consultants (e.g. attorneys, accountants, appraisers, etc.) should be amortized using the straight line method, for a period not less than two years but not more than five years. Consulting costs of less than $100,000 should be expensed in the current year.

D. RECORDING LIABILITIES AND FUND BALANCE

All liabilities shall be recorded in Investment In Plant with other University debt as follows:

Dr.	Fund Balance	X-101990
Cr.	Liabilities	X-1019XX

II. PROCEDURES (Cont.)

D. RECORDING LIABILITIES AND FUND BALANCE (Cont.)

An interfund advance must be recorded if the long-term debt exceeds the capitalizable assets. This amount must equal the amount recorded in the Due to Investment In Plant account illustrated in the journal entry in Section B. above. The entry shall be made as follows:

Dr.	Current Fund Advances	X-101986
Cr.	Fund Balance	X-101990

As the principal is being paid, the campus must reduce the advance and Due to Investment in Plant by reversing the above entry and by reducing the Current Fund accounts as follows:

Dr.	Due to Investment in Plant	X-1159XX
Cr.	Fund Balance	X-119XXX-XXXXX-0199

III. RESPONSIBILITIES

The campus accounting officer and the hospital finance director are responsible for compliance with and implementation of the procedures set forth in this chapter.

IV. REFERENCES

Accounting Manual chapters:

H-576-62 Hospital: Plant Asset Accounting

P-415-3 Plant Accounting: Investment in Plant

P-415-8 Plant Accounting: Unexpended Plant Funds

P-415-12 Plant Accounting: Borrowed Funds--Local

Historical Note: Accounting Manual chapter first published 9/30/95; analysts--Ken Strangfeld and John Turek.

End.