

# The New Health Care Audit Guide And Other Current Topics in Health Care Accounting and Reporting Part 2

FICPA Health Care Conference  
April 26, 2012  
Cline Comer



# Outline

- Part I
  - AICPA Health Care Audit and Accounting Guide Update
- Part II
  - Recently issued and proposed FASB Updates affecting Health Care providers
  - Other current topics of interest

# Speaker Bio – Cline Comer

- Cline Comer is a Partner with CliftonLarsonAllen LLP, located in Charlotte, NC, is a member of the Firm's Accounting and Auditing Quality Group and serves as the primary Accounting and Auditing Quality Technical Partner for the firm's national health care practice
- Cline has over 35 years of experience concentrated in serving health care providers and is a member of the AICPA Healthcare Industry Expert Panel and the Audit Guide Revision Task Force. Cline also is currently serving as a member of the Governmental Accounting Standards Advisory Council and has served on the AICPA Technical Issues and Governmental Accounting and Auditing Committees and a number of AICPA Task Forces.

# Disclaimer

*The views expressed in this session are the views of the presenters and do not necessarily represent positions of the Financial Accounting Standards Board, AICPA or any other authoritative entity.*

# Agenda

- FASB Exposure Drafts and Projects
- Accounting for HITECH Funds (EHR)
- Accounting for ICD-10 Costs
- Debt topics
- Non Profit Committee Developments
- GASB Developments

# The FASB Exposure Drafts Affecting Health Care Providers

- Key Exposure drafts outstanding
  - Leases
  - Revenue recognition
  - Risks and Uncertainties/Liquidation Basis of Accounting
  - Loss Contingencies
  - Definition of a Nonpublic Entity

# Lease Exposure Draft - ED

- **Proposed ASU No. 1850-100, Leases-**
  - “Right-of-use” model should be considered
  - Organization leasing an asset would account for it by recording an asset for the lease term and a liability for lease payments (similar to the capital lease model under current standards)
  - Would require more leases recorded on an organization’s balance sheet.
  - Plan to reissue Exposure Draft during second half 2012

# Overview of Proposed Lease Accounting

- A lease creates a commitment
  - Called a lease obligation
- A lease creates an asset
  - Called a right-of-use asset
- Lease obligation should be discounted
  - Incremental rate or other rates
- Short-term leases are excluded from asset/liability accounting
  - Maximum lease term is 12 months or less
- Bargain purchase or transfer of title
  - Results in a purchase/sale not a lease



# Lessee Accounting

- **Recognize an Asset** – Represents right to use
  - The asset would be amortized over the shorter of:
    1. Expected lease term, or
    2. The asset's useful life
- **Recognize a Liability** – Representing obligation to make lease payments
  - Interest expense would be recognized on the lease liability

# Lessee Accounting (Continued)

## Key Assumptions

- Lease term and renewal options
- Discounting
- Contingent cash flows

# Lessor Accounting

- **Recognize an Asset** – Representing its right to receive lease payments.
- **Depending on exposure to risk or benefit** – of the underlying asset would either,
  1. Recognize a lease liability while continuing to recognize the asset, or
  2. Derecognize the asset's underlying rights transferred, and recognize a residual asset for the value at the end of the lease.

# Complicating Factors in Leasing

- Financing versus other than financing
- Identified or specific asset under lease
- Discount rates other than the incremental borrowing rate - Maybe use of benchmark rates?
- Rent expense versus amortization and interest
- “At will” leases
  - Also called month-to-month leases
- Related party leases
- Lessor accounting
  - Derecognition versus performance measurement

# Preparing for Lease Accounting Changes

## Who should be involved at the Entity?

- Accounting, Finance, Treasury, Legal, budgeting, etc...

## Inventory Leases

- Is there an inventory of leases and master lease summary?
- Segment leases by asset type (e.g., computers, copiers, real estate, equipment, etc...)

## Consider

- Are your systems designed to capture information to comply with the new lease standard?
- Do leases expire before effective date of standard and can new leases be structured differently?
- Consider the ability to renegotiate with lenders based on covenant compliance.

# Leases Project - Timetable

- Exposure Draft to be reissued second half 2012
  - May not be issued before 2013
- Likely not effective before 2015
- GASB following the FASB project closely to determine their course of action – nothing from GASB yet

# Revenue Recognition ED

- Purpose
- Provide a comprehensive framework concerning:
  - When to recognize revenue,
  - Amounts to be recognized, and
  - Presentation and disclosure.
  
- This standard will significantly impact all industries and replace previously issued industry-specific guidance.

# Proposed Revenue Recognition Accounting

- Five step process
  1. Identify contract
  2. Identify distinct performance obligations
  3. Determine transaction price
  4. Allocate transaction price
  5. Recognize when performance obligation is satisfied



# Contract Costs

- Unless defined elsewhere in the standards, cost of sales are limited to “direct costs”
  - Inventory and fixed assets still include an element of indirect costs (overhead)

# Revenue Recognition ED – Status

- FASB reissued the ED in November 14, 2011 with comment period ending March 13, 2012
- FASB plans to begin redeliberation after end of comment period (2Q 2012)
- Appears final standard may not be ready for issue until late 2012
- Announced that there would likely be a 1 year delay for non public entities
- Likely not effective for public entities prior to 2015
- GASB observing the project, no plans for any changes so far

# Revenue Recognition ED (continued)

- FASB conducting extensive outreach efforts
  - Concern about “unintended consequences”
- Many questions, including:
  - For HC provider, who is contract with?
    - ◇ Patient
    - ◇ Third party payor
    - ◇ Other
  - Impact on recording of bad debts and charity care charges
  - Use of “most likely amount” in estimating variable consideration, such as third party settlements
  - For CCRC’s what happens to current standard allowing revenue recognition for certain refundable fees

# Risks and Uncertainties

- Original ED to address concerns by investors that significant litigation settlements not disclosed until after settlement
- Original ED attempted to change accounting, withdrawn, very controversial
- Reexposed, focus on additional disclosures, no changes in accounting, still very controversial
- Future status of project uncertain

# Risks and Uncertainties

- Project began as attempt to addressing going concern issues in accounting literature
- Focus on earlier identification of circumstances that might lead to going concern issues
  - Also to provide guidance on liquidation basis of accounting
- Received input from SEC and PCAOB
- Challenge with defining “substantial doubt”
- Current focus on when and how to apply liquidation basis of accounting
- ED planned for 2Q 2012

# Definition of Non-Public Entity

- Currently NFP's and private companies not exempted from certain disclosures if have conduit debt obligations
  - SFAS 126-1, and other standards with specific requirements and effective dates that differ for public and non public
  - ASC has multiple definitions of public/non public
- Project added to FASB agenda March 2012
  - Objective to reexamine definition of non public

# Other Current Topics

# Accounting for EHR Payments

- American Recovery and Reinvestment Act – 2009
  - Incentive payments for hospitals and professionals that meaningfully use certified electronic health record (EHR) technology
  - Goals
    - ◇ Improve quality, safety, efficiency
    - ◇ Improve coordination of health care
    - ◇ Maintain privacy and security



# Accounting for EHR Payments

- Incentive payment for PPS Hospitals
  - Base amount \$2 million
  - Additional \$200 per discharge, between 1,150-23,000
  - Multiplied by Medicare share with transition factor from 100% in Year 1 to 25% in Year 4
- Not available for PPS Hospitals that first become meaningful users after 2015
- Must demonstrate “meaningful use” of certified EHR technology for each reporting period
- Must register with CMS and provide results of EHR improvements in subsequent years

# Accounting for EHR Payments

- Issues analysis published by HFMA January 2012
- AICPA/HFMA Task Force prepared the analysis
- Discussed with SEC in an attempt to expedite
- Conclusions of the Task Force
  - Use Grant Accounting model under IAS 20
  - SEC indicated they would object to any approach other than gain contingency model
    - ◇ Organizations other than SEC Registrants may consider either of the two alternatives
- Question about payments being subject to OMB Circular A-133

# Accounting for EHR Payments

- Issues Analysis addresses PPS Hospitals only
- Critical Access Hospitals
  - Allowable costs based on costs of qualifying depreciable equipment
  - Effectively allows CAH to expense costs of equipment in one year
  - Depreciation for cost report reduced in future years (no double dip)
  - Medicare share calculation increased by 20 percentage points
  - No current guidance – AICPA HC EP task force to address

# ICD-10 Costs

- Draft Technical Practice Aid in process of preparation
- Applicable to upgrades and enhancements of an existing software system
- Discusses requirements in ASC 350-40
  - Training costs expensed
  - Process reengineering costs expensed
  - Upgrades and enhancement costs considered for capitalization if results in increased functionality
  - Organizations should consider planned use of additional information available after implementation

# Debt Topics

- FSP FAS 126-1, Applicability of Certain Disclosure and Interim Reporting Requirements for Obligors for Conduit Debt Securities
  - Organizations issuing municipal bonds through governmental issuers (conduit obligors)
  - Conduit obligors whose bonds trade in public markets considered “public entities” for certain reporting and disclosure requirements
- Public Entity status does not:
  - Require an NPO to apply FASB standards that specifically exempt NFP’s
  - Impose SEC or other regulatory filing requirements on NFP’s

# Debt Topics

- Classification of debt
  - Letters of Credit (EITF Issue D-61)
    - ◇ LOC must extend beyond end of subsequent fiscal year
    - ◇ Repayment of advances under LOC may impact debt classification
  - Subjective acceleration clauses (SAC) or material adverse change clauses
    - ◇ Long term obligations – evaluate likelihood of SAC being exercised (ASC 470-10-45-2)
    - ◇ Short term obligations – (VRDO supported by credit facility) – probability of exercise not relevant (ASC 470-10-55)

# FASB NFP Advisory Committee (NAC)

- Established in 2009 as resource for FASB to obtain input from NFP sector
- Three subgroups
  - Reporting financial performance
  - Reporting liquidity/financial health
  - How to “Tell the story”
- Recommendations to FASB September 2011

# FASB NFP Advisory Committee (NAC)

- FASB approved for standards projects:
  - Reexamine net assets classes and improve how liquidity is reflected in NFP financials
  - Improve reporting of financial performance in statements of activities and cash flows
  - Reexamine NFP disclosures, intent to streamline
- FASB approved for research project:
  - Management's Discussion and Analysis (MD&A) to better tell the organization's financial story
- Potential for significant changes to NFP reporting



# GASB Update

# Recent GASB Pronouncements

## GASB No. 61 - The Financial Reporting Entity

- Amends GASB No. 14 and 39
- Modifies certain requirements for inclusion of component units in the financial reporting entity
- Amends criteria for reporting component units
- May result in organizations no longer meeting CU criteria
- Effective for periods beginning after June 15, 2012, early application encouraged

# Recent GASB Pronouncements (Continued)

## GASB No. 61 - The Financial Reporting Entity (continued)

- Fiscal Dependence is NOT ENOUGH to include as Component Unit
  - must also have FINANCIAL BURDEN/BENEFIT relationship
- Blending of component units “tightened up”
  - Same governing body AND
    - ◻ “benefit/burden” or
    - ◻ management of PG also manages component unit
  - OR, Services provided entirely to PG
  - OR, Component Unit’s debt to be paid ENTIRELY by Primary Government

# Recent GASB Pronouncements (Continued)

## GASB No. 61 - The Financial Reporting Entity (continued)

- Clarifies the reporting of equity interests in legally separate organizations
  - Primary government would report its equity interest in a component unit as an asset and then be eliminated
- Note disclosures
- Effective for financial statement periods beginning after June 15, 2012
  - Earlier application is encouraged

# Recent GASB Pronouncements (Continued)

## GASB No. 62 – Codification of Accounting and Financial Reporting Guidance

- **Incorporate into the GASB's authoritative literature** guidance included in the following pronouncements issued on or before November 30, 1989, which **does not conflict** with or contradict **GASB** pronouncements:
  - ◇ FASB guidance
  - ◇ APB opinions
  - ◇ Accounting Research Bulletins

# Recent GASB Pronouncements (Continued)

## GASB No. 62 – Codification of Accounting and Financial Reporting Guidance (continued)

- **Supersedes GASB No. 20**
  - eliminates the election to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements
  - However, can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement

# Recent GASB Pronouncements (Continued)

## GASB No. 62 – Codification of Accounting and Financial Reporting Guidance (continued)

- For ANY TOPIC – see table of contents and look to see if there's guidance out there.
- If there's guidance there, you know:
  - DOES NOT CONFLICT with GASB
  - IT WAS ISSUED PRE-NOVEMBER 30, 1989
- Effective for periods beginning after December 15, 2011

# Recent GASB Pronouncements (Continued)

## GASB No. 63 – Financial Reporting of Deferred Outflows, Deferred Inflows, and Net Position

- Standards does not require recognition of deferred outflow or inflow, just how to present
- Amends net asset reporting – net assets will become, instead, net position
- GASBS Nos. 53 and other standards include deferred outflows and inflows
- Effective for periods beginning after December 15, 2011 (calendar 2012)



# Recent GASB Pronouncements (Continued)

## **GASB No. 63 – Financial Reporting of Deferred Outflows, Deferred Inflows, and Net Position**

- Deferred outflows of resources
  - è Consumption of net assets that is applicable to a future reporting period (positive net position)
- Deferred inflows of resources
  - è Acquisition of net assets that is applicable to the future reporting period (negative net position)
- Net position
  - è Residual of all other elements presented in statement of net position

# Recent GASB Pronouncements (Continued)

## **GASB No. 63 – Financial Reporting of Deferred Outflows, Deferred Inflows, and Net Position**

Statement of net position format:

Assets plus deferred inflows of resources

Minus liabilities minus deferred inflows of resources

Equals net position

Appendix C has illustration

# Proposed Pension Accounting Changes

**There will be changes ahead!**

# GASB Pension Proposals

- Because the employer is primarily responsible for the *unfunded* pension obligation resulting from the employee-employer relationship:

Record as a *liability* on the financial statements the difference between the total pension liability and the resources of the plan to pay the liability

# GASB Pension Proposals

Measurement is a three-step approach:

1. Determine the projected benefit payments
2. Discount future payments
3. Allocate/attribute the cost to the applicable service periods

# GASB Pension Proposals

Some pension costs will be expensed currently:

- Pension benefits earning during the period
- Interest cost on total pension liability
- Change in benefits terms
- Differences between actual and expected economic and demographic factors and changes in actuarial assumptions for inactive or former employees (*those no longer providing services*)

# GASB Pension Proposals

## Some pension costs deferred:

- Differences between actual and expected economic and demographic factors and changed in actuarial assumptions for active employees (*those still providing services*)
- Difference between actual and projected earnings on plan assets

These will be recognized over a period of time, instead of currently = deferred inflows and outflows.

# GASB Pension Proposals

- There will be, obviously, a multitude of disclosures related to the pensions
- Also will include Required Supplementary Information for trend information



# GASB Pension Proposals

- Likely will be issued by June 30, 2012
- Expected effective date:
  - Periods beginning after June 15, 2013
  - One year earlier for very large single-employer plans (net position of \$1 billion or more in the plan's first FY ending after June 15, 2010) that meet certain criteria.

# Other Proposed GASB Statements

- Financial projections
  - If approved, could require inclusion as RSI based on currently known facts about the future
  - Future cash inflows and outflows
  - Very controversial, follow this one closely

# Questions and Comments

# Contact Information

**Cline Comer, CPA, Partner**

CliftonLarsonAllen LLP

[cline.comer@cliftonlarsonallen.com](mailto:cline.comer@cliftonlarsonallen.com)

704-998-5206



Follow our blog for current discussions on health care.

[www.larsonallen.com/blog](http://www.larsonallen.com/blog)



[www.twitter.com/larsonallen](http://www.twitter.com/larsonallen)  
[www.twitter.com/larsonallenhc](http://www.twitter.com/larsonallenhc)



[www.facebook.com/larsonallen](http://www.facebook.com/larsonallen)



[www.linkedin.com/companies/larsonallen](http://www.linkedin.com/companies/larsonallen)