The New Health Care Audit Guide And Other Current Topics in Health Care Accounting and Reporting Part 1

FICPA Health Care Conference

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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.

AICPA Health Care Audit Guide Update

Audit and Accounting Guide Revision Project

- Last comprehensive revision to the Audit and Accounting Guide was completed in 1996
- Conforming changes made annually since 1996
- FASB Accounting Standards Codification

Objectives of the Guide Revision

- Improve user friendliness and clarity
- Reduce variability/diversity in practice
- Address recent and emerging issues
- Incremental guidance specific to HC, not complete set of GAAP for HCOs
- Specific or prevalent to health care organizations
- Consolidate audit guidance and governmental HCO guidance

Audit Guide Revision Project

- Working draft of revised Guide posted to AICPA Web Site on April 6, 2011
- Comment period ended on June 6, 2011
- EP met mid-June to address comment letters
- Final draft to FinREC for review and approval
- Published October 18, 2011, as of July 1, 2011
- Annual update for conforming changes in process

FASB Accounting Standards Codification

- AICPA Audit and Accounting Guides are no longer authoritative GAAP for non governmental
- Guides include references to the ASC throughout
- Guides describe FinREC's understanding of prevalent or sole industry practice concerning certain issues
  - FinREC may express a preference for the prevalent or sole industry practice, or may express a preference for another practice, or express no view
- Provides guidance supported by FinREC on transactions or events not addressed in ASC
- HC Guide is authoritative GAAP under GASB

Seven Issues Considered by FASB/EITF

- Measuring charity care
  - ASU 2010-23
- Gross or net presentation of insurance recoverables
  - ASU 2010-24
- Revenue recognition for self pay patients
  - EITF Topic 09-H/ASU 2011-07
- Loss contracts
- Equity transfers
- Long lived asset contributions
- Discounting of actuarially determined liabilities

New Chapters

- Chapter 3 – Unique Financial Statement Considerations of Not-For-Profit Health Care Entities
- Chapter 5 – Derivatives (with specific emphasis on those derivatives used in the health care field)
- Chapter 7 – Municipal Bond Financing (with specific emphasis on the types of bonds issued on behalf of health care organizations)
- Chapter 11 - Contributions Received and Made
- Chapter 15 – Unique Considerations of State and Local Governmental Health Care Entities

Chapter 2 – Auditing Considerations

- Consolidated most of the auditing guidance and unique HC audit considerations in this chapter
- Primarily focused on non-issuer auditing standards with a few references to PCAOB standards/considerations

Chapter 3 - Financial Statement Considerations

- Consolidated guidance from FAS 117 and basic financial statement presentation into one chapter
- Performance indicator
- Subsequent events disclosures
- Sources of publicly available example financial statements (presentation and disclosure)
- Former Appendix A (sample financial statements) no longer included

Chapter 5 – Derivatives

- Not intended to be a complete volume of guidance – addresses derivatives commonly encountered by health care organizations
- Hedges, embedded derivatives, puts and calls, swaps
- Statement of operations presentation considerations

Chapter 7 – Municipal Bond Financings

- "Public Entity" for financial reporting purposes
- Overview of SEC framework, EDGAR, EMMA
- Added guidance for classification of VRDOs, subjective acceleration clauses, self liquidity, extinguishment vs. modification
- Recent initiatives for regulation of miscellaneous issues and conduit borrowers
- Added guidance on auditor association with municipal debt offerings

Chapter 8 – Contingencies and Other Liabilities

- ASU 2010-24 regarding gross presentation of insurance recoveries and incurred liabilities
- Expanded guidance from malpractice to other similar types of liabilities and claims
- Discounting of medical malpractice liabilities
- Guarantees and other contingencies
- Compensation related liabilities
- Tax considerations for NFP HCOs, including uncertain tax positions
- State voluntary contribution and tax programs
- Auditing considerations and use of specialists

ASU 2010-24 – Presentation of Insurance Claims and Related Insurance Recoveries

- Healthcare providers are required to present liabilities for insurance claims separately from related insurance recoveries
  - Includes arrangements where insurer pays claims directly
- Netting is no longer appropriate
  - The healthcare industry exception is eliminated
- In most cases, should simply be a balance sheet gross up.

ASU 2010-24 – Presentation of Insurance Claims and Related Insurance Recoveries

- Entity should evaluate exposure to losses arising from claims and recognize liability separate from anticipated insurance recoveries
- If indemnified for losses, recognize receivable at same time, measured on same basis as related liability, with consideration of need for valuation allowance
- If there is a difference between liability and receivable, it should be reported as a cumulative effect adjustment to beginning net assets in the year of adoption

ASU 2010-24 – Presentation of Insurance Claims and Related Insurance Recoveries

- Health Care Entities should apply gross up to all similar contingent obligations (stop-loss coverage for health insurance, workers comp, etc.)
- Concept of "transfer of risk to third party" eliminated. Gross up applies to all policies
- ASU requires accrual of legal and processing costs related to these contingent obligations. Typically accrual of legal costs is policy election for other industries.
- Must evaluate coverage and basis for recording receivable

Chapter 10 – Revenue

- Revenue recognition and accounting for bad debts – ASU 2011-07
- Third party payor disclosures
- Charity care discussion
- Charity care disclosures – cost – ASU 2010-23

ASU 2010-23 – Measuring Charity Care

- The objective of this ASU:
  - To reduce diversity and thereby increase the usefulness of the disclosures among health care entities by requiring a single measurement basis for the amount of charity care provided.

- Cost should be used as the basis for measuring charity care for disclosure

ASU 2010-23 – Measuring Charity Care

- The following should be disclosed:
  - The policy for providing charity care
  - The level of charity care provided (including both direct and indirect costs)
  - If costs are estimated, the method used to estimate such costs
  - Any funds received to offset or subsidize the charity care provided

ASU 2010-23 – Measuring Charity Care - Illustration

- Cost-to-charge ratio
  - Of the Hospital's $100 million in total expenses reported, an estimated $10 million related to providing services to patients qualifying under its charity policy. The estimated costs of providing charity care are based on a calculation which applies a ratio of costs to charges to the gross amount of charges foregone for charity patients. The ratio of costs to charges is determined based on the Hospital's total expenses (excluding bad debts expense) divided by gross patient revenue. The Hospital received $1 million in grants from XYZ County to help subsidize the costs of charity care.

ASU 2011-07

Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts

- Provision for Bad Debts from patient service revenue reclassified from operating expense to deduction from patient service revenue, net of contractual allowances and discounts
- Applies to organizations subject to ASC 954 (Health Care) which record significant amounts of revenue at the time services are rendered **even though the patient's ability to pay is not assessed.**
- Intended primarily for Hospitals with significant amount of self pay bad debts

ASU 2011-07

Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts

- Does not apply to bad debts associated with any other revenue sources
- Enhanced disclosures about policies for recognizing revenue and assessing bad debts
- Disclosures of patient service revenue
- Qualitative and Quantitative information about changes in allowance for doubtful accounts
- Public FY beginning after 12/15/11; nonpublic 12/15/12
- Presentation of provision for bad debts retrospective; disclosures prospective

ASU 2011-07

Example – ASU 2011-07 Applies

- Hospital A serves large number of patients unable to pay for services. Treatment often provided prior to obtaining information on patient's ability to pay. Many accounts that should qualify for charity care written off as bad debts due to lack of required documentation. Hospital A's provision for bad debts is not indicative of its credit risk and income statement has an artificial gross up of revenue unlikely to be realized, and a corresponding inflated bad debt provision.

ASU 2011-07

Example - ASU 2011-07 would not apply:

- Laboratory X assesses collectability for each patient. If a patient is deemed unable to pay (and the Lab decides to provide the service), no revenue is recorded. If a patient is deemed able to pay, and then the Lab is unable to collect, the account is written off as a bad debt.
- Lab X continues to report provision for bad debts related to patient service revenue as an operating expense

Chapter 11 – Contributions

- Consolidated guidance on contributions and FAS 136
- Contributions made
- Contribution of long-lived assets and services
- Expiration of donor-imposed restrictions
- Contributions vs. exchange transactions
- Pledges and conditional promises to give

Chapter 14 – CCRC's

- ED contained proposed additional language about contract language
- Majority of comment letters to the Exposure Draft concerning accounting for fees refundable upon reoccupancy and proposed change
- Final decision was to leave Guide paragraphs unchanged
- FASB Technical Corrections ED
  - ED issued October 2011
  - Contains requirement for additional contract language similar to what was originally in the draft Guide
  - FASB plans to discuss in May 2012

Chapter 15 – Governmental HC Organizations

- Guidance scattered throughout chapters in the previous guide consolidated into a single chapter
- Incorporates GASB 62 guidance
  - Codifies pre-89 GAAP for GASB
  - Effective for periods beginning after December 15, 2011
  - Early implementation encouraged
  - Supersedes GASB 20, paragraph 7
  - Includes cross reference table
  - Interim guidance under GASB 20 Para 7

Appendix A – Financial Statements

- AICPA decision to no longer include Illustrative Financial Statements in the Guide
- Challenges to maintain and update timely
- AICPA has indicated it no longer will produce separate documents with Illustrative Financial Statements and Disclosure Checklists
- Recently indicated that may continue to update certain checklists, but not HC (so far)

Questions and Comments

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