AICPA Revision Project
Audit and Accounting Guide,
Health Care Organizations

FICPA Annual Health Care Conference
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Speaker Bio – Cline Comer

- Cline Comer is a Partner with LarsonAllen 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 30 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 presenter and do not necessarily represent positions of the Financial Accounting Standards Board, AICPA or any other authoritative entity.

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
  - [http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/AcctgFinRptg/AcctgFinRptgGuidance/DownloadableDocuments/FINAL_WD_AAG_HCO.pdf](http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/AcctgFinRptg/AcctgFinRptgGuidance/DownloadableDocuments/FINAL_WD_AAG_HCO.pdf)
- Comment period ends on June 6, 2011
- EP plans to meet mid-June to address comment letters
- Final draft to FinREC for review and approval
- Goal to publish by November 2011
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
- Loss contracts
- Equity transfers
- Long lived asset contributions
- Discounting of actuarially determined liabilities

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
Chapter 1– Unique Considerations

- Scope of the Guide – Organizations that are intended to be included (Preface in the current Guide)
- Retains the entity orientation instead of transaction stream orientation
- FASB vs. GASB Standards
- Significant regulators and regulatory environment
- General discussion of health reform considerations

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 Statements

- 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 4 – Cash and Investments

- Added guidance on investment pools, alternative investments, central cash management arrangements
- Fair value option
- Impairment of investments
- Securities lending
- Auditing considerations of FV estimates and alternative investments
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 6 – Property and Equipment

• Added guidance on goodwill and other intangible assets
  – Based on SFAS 164 guidance; expanded discussion of intangibles
• HC examples of intangible assets
• Capitalized interest guidance
• Asset retirement obligations
• Impairment considerations
• Presentation and disclosure guidance
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

- Recent ASU 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
Chapter 9 – Net Assets

- Added guidance on noncontrolling interests and UPMIFA
- Some guidance in the NFP Guide incorporated by reference

Chapter 10 – Revenue

- Revenue recognition and accounting for bad debt under consideration
- Third party payor disclosures
- Charity care discussion
- Charity care disclosures – cost
Third Party Payor Disclosure

- FinREC recommends:
  - Settlement amounts due to and from each significant third party payor
  - Summary of activity for each operating period
  - Distinguish current and prior year settlements
  - Identify current year changes to prior year estimates
  - Disclose status of third party settlement claims
- Current vs. non current depending on expected timing
- Netting only if right of setoff exists

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**Medicare Settlement Balances – Net Amount Due From (Due To)**

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<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
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<tbody>
<tr>
<td>As of January 1</td>
<td>xxxxxx</td>
<td>xxxxxx</td>
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<tr>
<td>Activity related to prior years’ settlements:</td>
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<td></td>
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<tr>
<td>Payments to Medicare</td>
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<td>xxxxxx</td>
</tr>
<tr>
<td>Changes in prior years’ estimates</td>
<td>xxxxxx</td>
<td>xxxxxx</td>
</tr>
<tr>
<td>Activity related to current year settlements:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current year estimated settlements</td>
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<td>xxxxxx</td>
</tr>
<tr>
<td>Payments to Medicare</td>
<td>xxxxxx</td>
<td>xxxxxx</td>
</tr>
<tr>
<td>As of December 31</td>
<td>xxxxxx</td>
<td>xxxxxx</td>
</tr>
</tbody>
</table>
Chapter 10 – Revenue (continued)

• Third party payor disclosure – Example

<table>
<thead>
<tr>
<th>Third –Party Settlement Balances</th>
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<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivable:</td>
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<tr>
<td>Settled balances receivable (NPRs issued)</td>
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<td>$xxxxxx</td>
</tr>
<tr>
<td>Estimated balances to be settled</td>
<td>$xxxxxx</td>
<td>$xxxxxx</td>
</tr>
<tr>
<td>Total receivable</td>
<td>$xxxxxx</td>
<td>$xxxxxx</td>
</tr>
<tr>
<td>Payable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Settled balances payable</td>
<td>$xxxxxx</td>
<td>$xxxxxx</td>
</tr>
<tr>
<td>Estimated balances to be settled</td>
<td>$xxxxxx</td>
<td>$xxxxxx</td>
</tr>
<tr>
<td>(NPRs issued)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total payable</td>
<td>$xxxxxx</td>
<td>$xxxxxx</td>
</tr>
<tr>
<td>Net Balance at December 31</td>
<td>$xxxxxx</td>
<td>$xxxxxx</td>
</tr>
</tbody>
</table>

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 12 – Reporting Entity

- Clarified guidance on sole corporate member, equity method of accounting, minority voting interest, etc.
- Old guidance on APB 16 replaced with FAS 164 guidance
- New table for various relationships and accounting guidance
- Related fund raising foundations
- Consolidation guidance
- Special entities, including JOAs
- Equity transfers and transactions

Chapter 13 – Managed Care

- Recognition and presentation of revenue (full risk vs. administrative services only)
- Health care costs
- Loss contracts or premium deficiency reserves
- Presentation and disclosure considerations and guidance
Chapter 14 – CCRCs

- Guidance added on refundable fees paid only from resale proceeds
- Contract Language
- Classification of refundable entrance fees

Chapter 15 – Governmental HC Organizations

- Guidance scattered throughout chapters in the current 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
Other

- Appendices retained for SOPs
- Glossary of common health care industry terms expanded
- Example Financial Statements eliminated from Guide – references to EMMA, EDGAR, and other resources

Timeline and Next Steps

- Working Draft guide posted for comment April 6
- 60 day comment period
- Consider comments received
- Final draft to be reviewed and approved by FinREC
- Print and distribution
Other Current Health Care Topics

- Revenue recognition is pending with the EITF (Issue 09-H)
- Health reform implications: EHR/meaningful use
- Subsequent event reviews and disclosures
- Joint FASB/IASB standard setting projects – leases, revenue recognition, consolidations
  - Timeline pushed back to end of 2011
- Loss contingencies disclosures
- Pressure on state budgets for HC – liquidity and going concern implications
- FASB Not-for-Profit Advisory Committee

Questions and Comments
Thank You

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