

## AICPA Revision Project Audit and Accounting Guide, Health Care Organizations



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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.*

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## 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

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## 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

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## 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

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## 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

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7 NOTICEABLY DIFFERENT

## 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

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8 NOTICEABLY DIFFERENT

## 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
- Healthcare Guide vs. Not-for-Profit Guide – applicability
- Significant regulators and regulatory environment
- General discussion of health reform considerations

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9 NOTICEABLY DIFFERENT

## 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

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10 NOTICEABLY DIFFERENT

## 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

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## 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

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## 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

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## 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

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## 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

## Chapter 10 – Revenue (continued)

### 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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## Chapter 10 – Revenue (continued)

- Third party payor disclosure – Example

<b>Medicare Settlement Balances – Net Amount Due From (Due To)</b>	<b>20X2</b>	<b>20X1</b>
As of January 1	xxxxxxx	xxxxxxx
Activity related to prior years' settlements:		
Payments to Medicare	xxxxxxx	xxxxxxx
Changes in prior years' estimates	xxxxxxx	xxxxxxx
Activity related to current year settlements:		
Current year estimated settlements	xxxxxxx	xxxxxxx
Payments to Medicare	xxxxxxx	xxxxxxx
As of December 31	<u>xxxxxxx</u>	<u>xxxxxxx</u>

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## Chapter 10 – Revenue (continued)

- Third party payor disclosure – Example

<b>Third –Party Settlement Balances</b>	<u>20X2</u>	<u>20X1</u>
Receivable:		
Settled balances receivable (NPRs issued)	xxxxxxx	xxxxxxx
Estimated balances to be settled	<u>xxxxxxx</u>	<u>xxxxxxx</u>
Total receivable	xxxxxxx	xxxxxxx
Payable:		
Settled balances payable	xxxxxxx	xxxxxxx
Estimated balances to be settled (NPRs issued)	xxxxxxx	xxxxxxx
Total payable	<u>xxxxxxx</u>	<u>xxxxxxx</u>
Net Balance at December 31	<u>xxxxxxx</u>	<u>xxxxxxx</u>

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## 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

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## 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

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## 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

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## 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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