

Accounting & Financial Reporting Changes: What Your Healthcare Organization Needs to Know

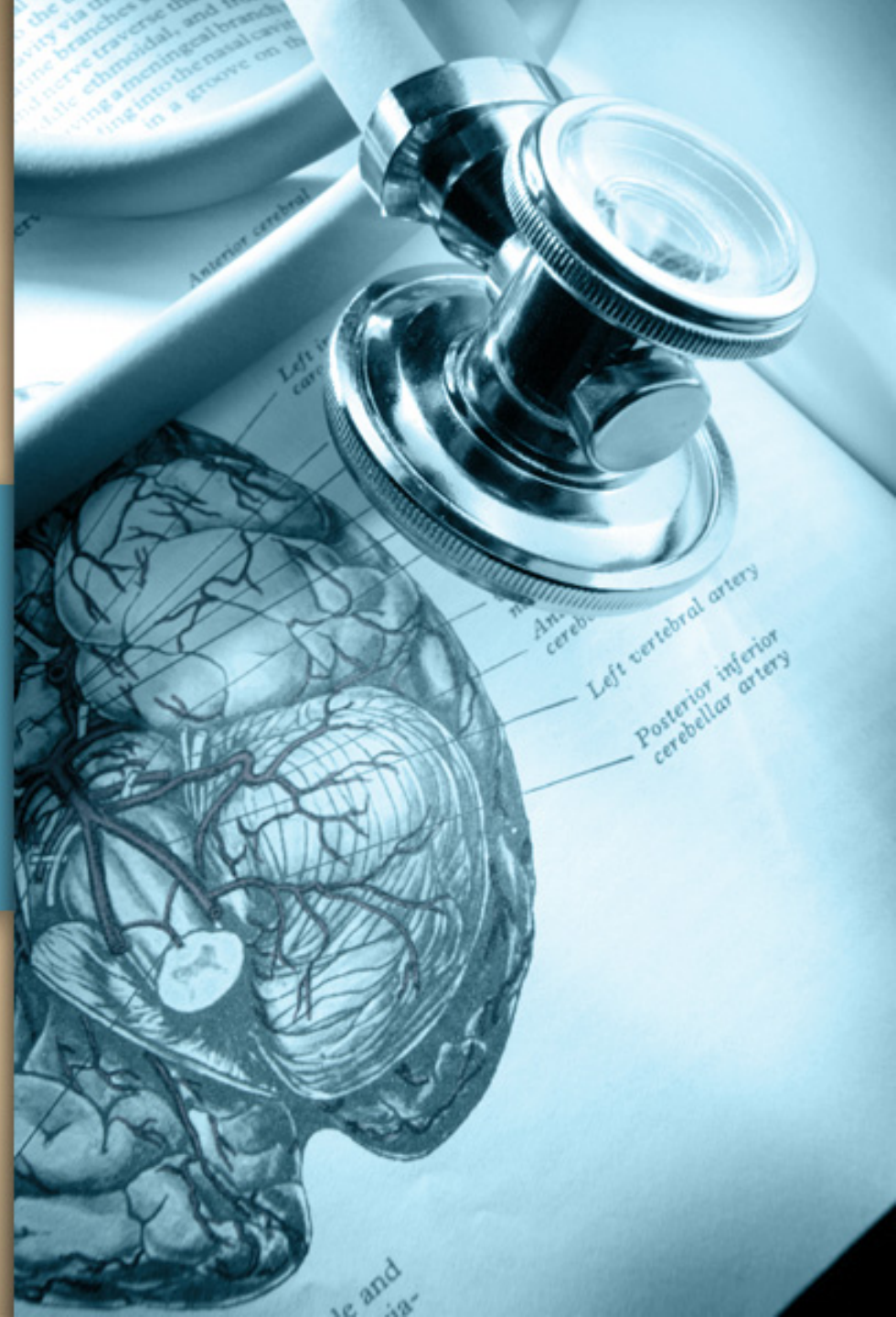
Presented by:
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Today's Topics

- Recently Issued ASUs
- FASB/IASB Exposure Draft on Leases
- International Financial Reporting Standards
- Status of AICPA Healthcare Guide
- FASB Re-visiting Going Concern
- GASB Update
- Private Company Financial Reporting

Recently Issued ASUs



ASU 2011-07 Health Care Entities- Overview

- Presentation & Disclosure of Patient Service Revenue, Provisions for BD, & Allowance to Doubtful Accounts for Certain Health Care Entities
 - Developed to provide financial statement users greater transparency.
 - Applies to all health care entities that recognize a significant amount of PSR at the time services are rendered even though the ability to pay is not assessed.

ASU 2011-07 (cont.)

- Presentation on statement of activities:
 - Separate line items for:
 - Patient service revenue (net of contractual allowances and discounts)
 - Provision for bad debts (amount related to patient service revenue & included as a deduction from patient service revenue)
 - Resulting net patient service revenue less provision for bad debts.

ASU 2011-07 (cont.)

- Disclosure Requirements:
 - Identify the major payor sources.
 - Policy for assessing timing & amount of bad debts by major payor source.
 - Qualitative & quantitative information about changes in the allowance for doubtful accounts.
 - Changes in estimates or assumptions
 - Amount of self-pay & third-party write-offs
 - Other unusual transactions impacting allowance

ASU-2011-07 (cont.)

- The update will be effective:
 - Fiscal years beginning after December 15, 2011 for public entities
 - First annual period ending after December 15, 2012 for nonpublic entities.
- Early application is permitted
- Amendments to the presentation in the statement of operations should be applied retrospectively.
- Amendments to the related disclosures should be applied to the period of adoption and subsequent reporting periods.

Insurance Claims Overview

- ASU 2010-24: Health Care Entities – Presentation of Insurance Claims and Related Insurance Recoveries
 - Developed due to diversity in practice of reporting medical malpractice claims and similar liabilities and related anticipated insurance recoveries.
 - Prior to this ASU, health care entities were either:
 - Netting anticipated insurance recoveries with the related accrued liability
 - Presenting anticipated recovery and liability on a gross basis.

Main Provisions of this Update

- Clarified that entities should not net insurance recoveries against the related claim liability.
- Claim liability should be determined without considering the recoveries.
- These amendments are consistent with existing guidance on determining whether assets and liabilities can be offset (netted) for financial statement presentation.

Insurance Recoveries: How does this differ from current US GAAP?

- Clarified that this guidance also applies to health care entities.
- Reduced diversity in practice.
- Eliminated an industry exception to the general principle on determining when net presentation is permitted.
- More consistent with IFRS which do not permit offsetting assets and liabilities in these circumstances.

Applying ASU 2010-24

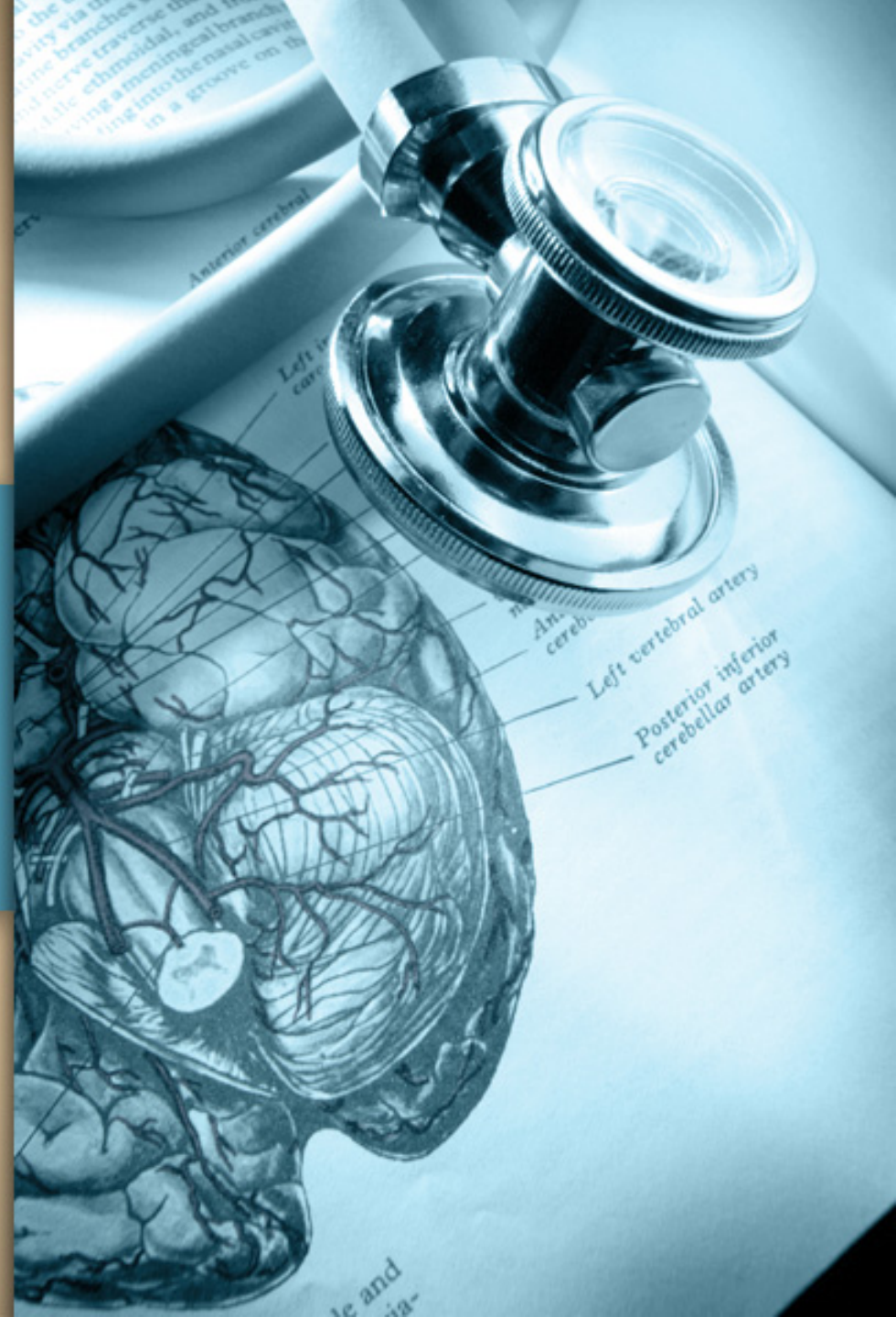
Medical Malpractice Claims:

- Health care entities must evaluate exposure to losses arising from claims and recognize a liability, if appropriate.
- The liability is not presented net of anticipated insurance recoveries.
- If the entity is indemnified for these liabilities, an insurance receivable should be recognized at the same time and measured on the same basis as the liability.
 - The receivable is subject to the need for a valuation allowance for uncollectible amounts.

Applying ASU 2010-24 (cont.)

- The Update was effective for fiscal years beginning after December 15, 2010.
- A cumulative-effect adjustment should be recognized to opening retained earnings in the period of adoption if there is a difference between:
 - Liability recognized in the statement of financial position after initial application.
 - Insurance receivables recognized in the statement of financial positions for anticipated insurance recoveries after initial application.

FASB/IASB: Exposure Draft on Leases



Exposure Draft (ED), Leases - Overview

- A discussion paper, *Leases: Preliminary Views*, was published in March 2009.
- ED's issued by the FASB and the IASB on August 17, 2010. Comment period ended December 15, 2010.
- ED's addressed the accounting by both the lessor and lessee.
- If finalized, the ED's would converge FASB's and IASB's accounting for lease contracts in most significant areas.

Why did the boards undertake this project originally?

- The current lease accounting model has been criticized for reasons including:
 - It omits relevant information about rights and obligations that meet the definition of assets and liabilities
 - It is unnecessarily complex
 - Results in financial reporting that emphasizes form over substance.
- Project furthers the convergence of IFRS and US GAAP

Applicability of New Guidance

- The proposed requirements would affect any entity that enters into a lease, except they would not apply to:
 - Leases of intangible assets;
 - Leases to explore for or use of minerals, oil, natural gas, and similar resources;
 - Leases of biological assets;
 - Certain service components of leases; and,
 - Contracts that represent a purchase or sale of an underlying asset.

Overall Model in the ED's

- All leases would result in an asset and liability recognition.
- Differs from current US GAAP which currently breaks leases into 2 categories (capital and operating)

Effects on the Lessee

- Would require the lessee to recognize:
 - An asset representing its right to use the leased item for the lease term
 - Measured at the present value of the lease payments plus any indirect costs
 - A liability for its obligation to pay rentals
 - Measured at the present value of the lease payments.
 - The obligation must be based on the longest possible term, taking into account the effect of any options to extend or terminate the lease.

Effects on the Lessee (cont.)

- Obligation to pay must include estimates of:
 - Amounts payable under contingent rental agreements;
 - Amounts payable under residual value guarantees; and,
 - Expected payments under term option penalties.
- Lessees must classify cash payments for leases as financing activities in the statement of cash flows.

Effects on the Lessor

- Would require the lessor to recognize an asset representing its right to receive lease payments and would either:
 - Recognize a lease liability while continuing to recognize the underlying asset (performance obligation approach) or,
 - Derecognize the rights in the underlying asset that it transfers to the lessee and continue to recognize the residual asset of its rights to the underlying asset at the end of the lease (derecognition approach).

Additional Effects

- Simplifications for short term leases can be elected on a lease-by-lease basis.
- Lessees would be required to perform significantly more monitoring and recordkeeping.
- Public companies could see stock prices effected:
 - Financial statements will be more comparable to competitors'
 - Ratios and metrics will change
- This will need to be discussed with lenders and debt covenants may need to be renegotiated

ED Leases – Current Status

- July 21, 2011 the Board agreed to re-expose their revised proposals.
 - Allow comments on the revisions undertaken
 - Significant revisions that would benefit from additional input
 - Previous comments reaffirmed major changes to leasing
 - Expected revised ED release Q1, 2012

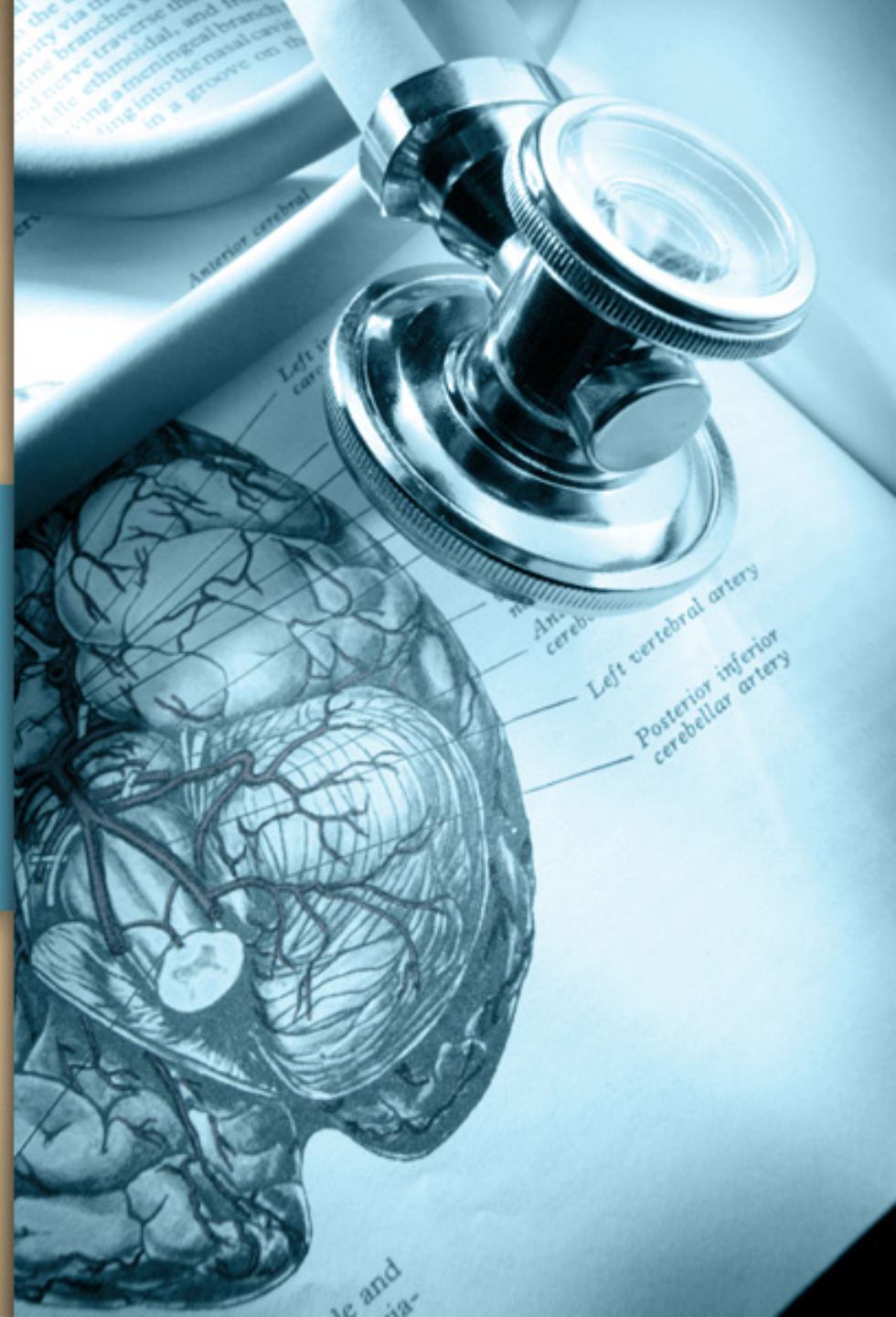
ED Leases – Current Status (cont.)

- The Boards met September 19, 2011 to discuss:
 - Scope issue for assets treated as inventory
 - Application of financial asset guidance to the right to receive lease payments
 - Subsequent measurement issues for lessors
 - Accounting for residual value guarantees by lessors.

ED Leases – Current Status (cont.)

- The Boards met October 19, 2011 to discuss additional items:
 - Lessor disclosures
 - Variable lease payments
 - Financial statement preparation
 - Fair value requirements for lease receivables

International Financial Reporting Standards (IFRS)



US GAAP & IFRS Convergence

- The SEC has issued a roadmap to convergence.
- IFRS have been mandated, adopted or emulated in by about 100 countries.

What are IFRS?

- Standards adopted by the International Accounting Standards Board (IASB).
- More “principles based” than “rules based” – requires more judgment.

US GAAP vs. IFRS (General Differences)

US GAAP	IFRS
More detailed guidance with a relatively large amount of industry-specific instructions	Less detailed overall with relatively little industry-specific instructions.
Permits Last-in-first-out (LIFO)	Does not permit LIFO
Uses a two-step method for impairment write-downs.	Uses a single-step method for impairment write-downs which results in a greater likelihood of write-downs.
Comparative FS's urged, but not required (except when SEC filings apply).	Comparative information must be disclosed in respect of the previous period for all amounts reported in the FS.

US GAAP vs. IFRS (General Differences)

US GAAP	IFRS
FASB Accounting Standards Codification is the single official source of authoritative U.S. GAAP.	No hierarchy established beyond IFRS.
Justification for U.S. GAAP departure found in auditing literature but very rarely invoked. This guidance does not exist under the U.S. GAAP hierarchy set forth by FAS 168.	“True and fair” override of IFRS permitted.
Debt related to a covenant violation may be presented as non-current if a lender agreement to waive the right to demand repayment for 1+ years exists prior to FS issuance.	Debt associated with covenant violation must be presented as current unless the lender agreement was reached prior to the balance sheet date.

Timeline

- **The SEC voted unanimously in February 2010** on a statement supporting the continued move toward adopting IFRS for U.S. public companies.
- **The SEC also adopted a work plan** under which the SEC staff will study issues surrounding adopting IFRS in the U.S., including the suitability of the standards themselves as well as both preparer and investor education.

Current Status

Two key activities coming to a conclusion:

1. SEC decision on whether to permit or require U.S. domestic companies to use IFRS
2. FASB and IASB nearing completion of targeted convergence for major joint projects
 - A joint progress report was released in April 2011 stating the four main priority convergence projects at this time and extended completion target dates to the 2nd half of 2012.

SEC IFRS Roundtable

- Followed May 2011 SEC Staff Paper outlining a possible approach to incorporating IFRS into U.S. financial reporting system.
- Held in July 2011
- Three panels focused on:
 - Investor understanding & knowledge of IFRS
 - Potential effect of IFRS on smaller U.S companies & the U.S. regulatory environment.
 - Pros/Cons of incorporating IFRS in the U.S.

Current IASB Work Plan

- As of September 30, 2011, the work plan shows additional delays:
 - Revenue Recognition (Re-exposure draft expected Q4, 2011)
 - Leases (Re-exposure draft expected 1st half 2012)
 - Financial Instruments (Multiple parts, exposure & comment periods expected end of 2011, beginning of 2012)
 - Insurance contracts (Review draft or revised ED 1st half of 2012)

Current Status (cont.)

- <http://www.ifrs.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm>
- Implementation:
 - Although exact dates are not known, the boards have stated that the effective dates will be sufficient to allow IFRS and US GAAP users adequate time to implement.
 - Phased-in versus “shotgun” approach.

FASB's Thoughts

- In October 2011, FASB's Chair gave 2 cautious thumbs up to the so-called "Condorsement" Approach:
 - Shows US support for ongoing development of global accounting standards
 - Maintains US GAAP name
 - Calls for some level of US involvement in the establishment of new standards
 - Recognizes a gradual approach is required

Notable countries using IFRS

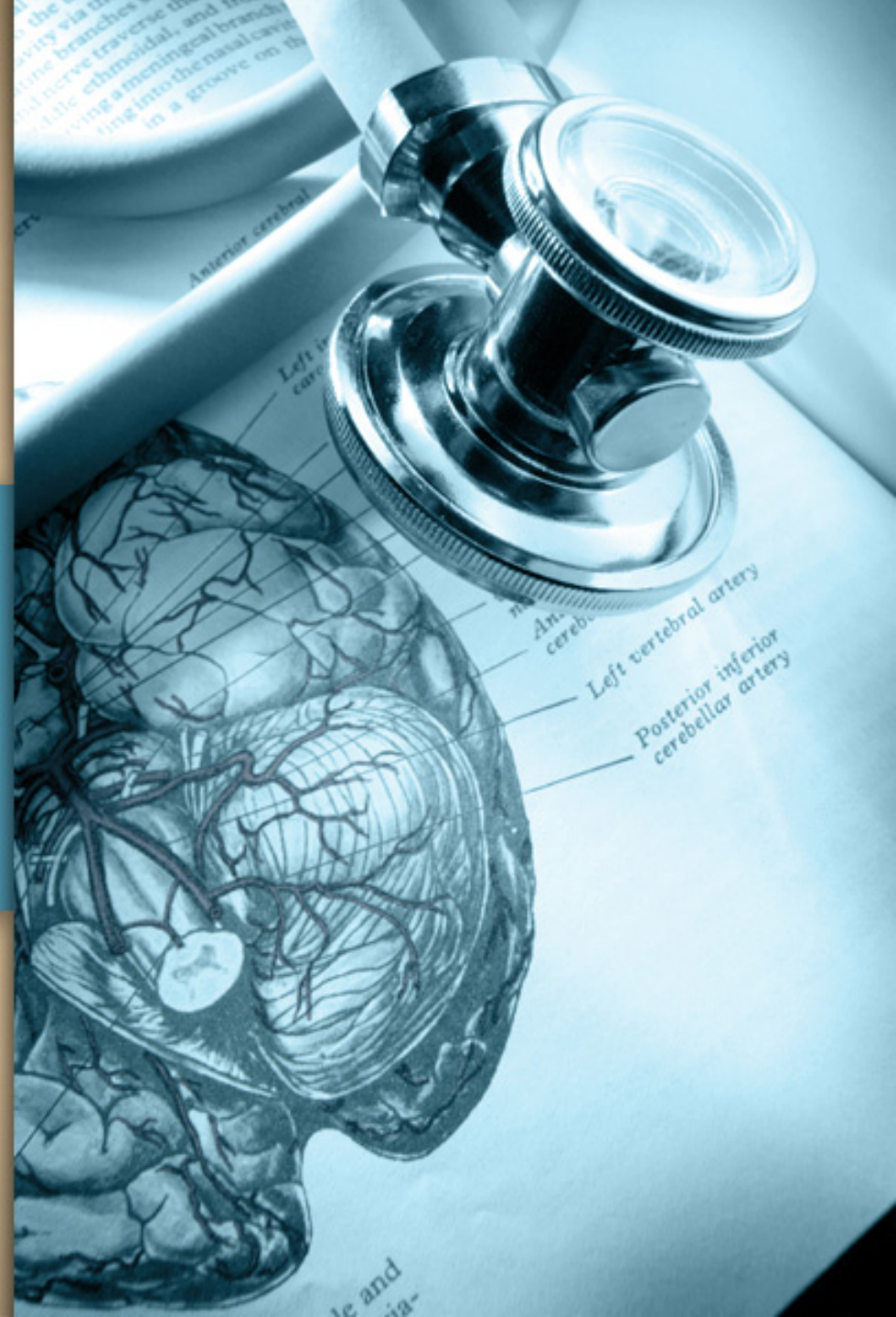
90 Countries have fully conformed with IFRS

- Countries in the European Union – 2005
- Australia – 2006
- Canada and Korea expect to transition in 2011
- Mexico will be partially transitioned in 2012

Timeline for IFRS adoption

- 2015 – Earliest possible date for required use by U.S. public companies
- No decision yet on use by private U.S. companies.

AICPA Health Care Audit and Accounting Guide Revision Project



Background

- The AICPA Audit and Accounting Guide: Health Care Organizations (the HC Guide) was originally issued in 1996.
- Substantial industry changes since then.
- Many of the accounting issues have led to diversity in practice.
- In 2004, a task force began work on a project to revise the HC Guide.

Background — continued

- Audit and Accounting Guides are written by a task force and approved by the Financial Reporting Executive Committee (FinREC)
 - FinREC is the senior technical body of the AICPA authorized to speak for the AICPA in the areas of financial accounting and reporting.
 - A&A Guides were previously considered level “b” GAAP if approved by the FASB or GASB.

Background — continued

- FinREC no longer has the authority to create or modify GAAP. Proposed changes to A&A Guides would require issuance of an Accounting Standards Update (ASU) or GASB statement in order to become GAAP.
- Several of the proposed changes to the A&A Guide have already been made through healthcare industry-specific ASUs.

Enhancements in New Guide

- Expanded discussions on health care industry specific topics including:
 - Medical malpractice claims, patient receivables and revenue recognition, the reporting entity and related entities, and financial reporting and accounting for managed care services and continuing care retirement communities.

Enhancements in New Guide

- “How-to” advice for handling accounting issues common to health care entities with detailed explanation of:
 - Fair value measurements and disclosures for non-governmental health care entities
 - Accounting for investments in debt securities held by investor owned not-for-profit and governmental entities
 - Accounting for and reporting medical malpractice claims and liabilities

Enhancements in New Guide

- It also includes two new chapters, one for not-for-profit health care entities and one for governmental health care entities. The governmental chapter reflects the issuance of GASB Statement No. 62 and includes an appendix with cross references to the predecessor pronouncements to assist governmental health care entities in the transition.

Current Status

- Final version of the guide is now available on the AICPA website

FASB – Revisiting Going Concern Project



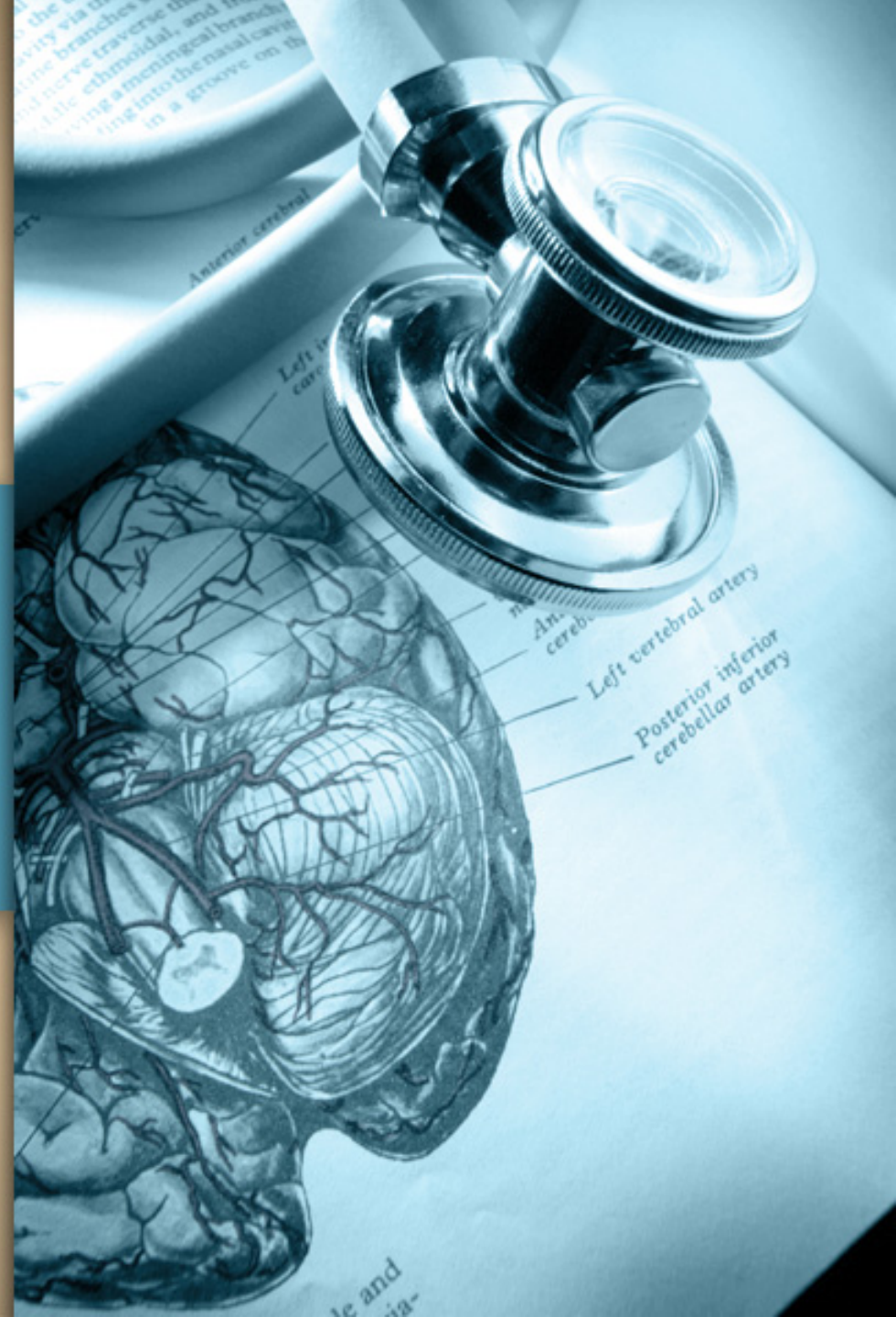
Project Overview

- Potential standard would ask executives to make unbiased assessments on a business's financial health when performance has grown steadily worse.
- Would be included as a "Risk and Uncertainties" disclosure

Basis for Disclosure

- The responsibility of raising red flags about a struggling business and its ability to continue has been on auditors.
 - Information is usually revealed too late
- Shifts burden to people who know business (management)

GASB 62



GASB 62 - Summary

Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

- Brings all FASB & AICPA guidance on governmental entities used to follow to GASB literature
- Eliminates the need to go to FASB literature
- Governmental entities now only follow GASB
 - New FASB ASUs do not apply unless GASB releases statement specifying the same standard

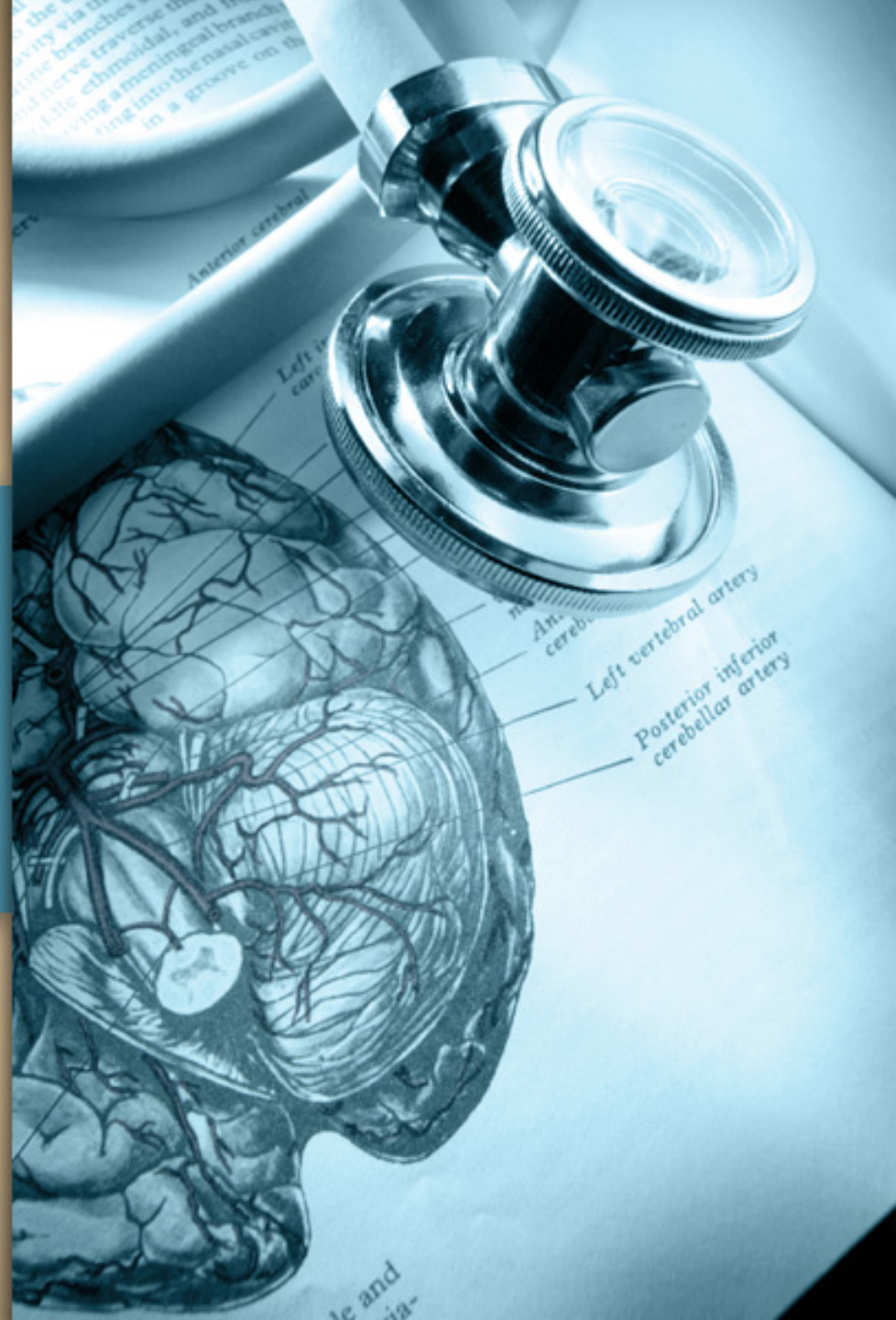
GASB 62 – Summary (cont.)

- Entities can continue to apply post-November 30, 1989 FASB pronouncements that do not conflict with GASB pronouncements.
- Effective for periods beginning after December 15, 2011.
 - Early application is permitted.
 - Provisions applied retroactively for all periods presented.

GASB 62 - Improvements

- Requirements will improve financial reporting by aiding GASB's efforts for codifying all sources of GAAP for state & local governments so they derive from 1 source.
- Brings authoritative literature together to one place
- Eliminate need for assessment of which FASB & AICPA pronouncements apply
- More consistency

Private Company Financial Reporting Update



Brief History

- Blue Ribbon Panel formed to provide recommendations on the future of accounting standards for public companies.
- Topic debated for decades
 - Many felt private companies accounting standards should be different.
- Originally voted to recommend FAF establish a new standard setting board.

Current Status

- The topic is still under debate
- Latest from the FASB:
 - FAF issued a proposal in October 2011 that would create a Private Company Standards Improvement Council (PCSIC) to analyze GAAP for exceptions or modifications.
 - 11-15 member council

How does this differ from initial recommendations?

- Any proposed changes would be subject to ratification by FASB.
 - BRP called for separate board overseen by FAF but with standard-setting authority independent of FASB.
- Justification:
 - Creating a separate standard-setting board would likely lead to 2 separate sets of U.S accounting standards.

AICPA Comments

- On October 19th, the AICPA adopted a resolution to:
 - Send a strong message to the FAF to adopt the BRP recommendation.
 - If the BRP recommendation is not adopted, the AICPA Board of Directors will look at other solutions.

What's next?

- Comments on the plan are due January 14, 2012
- FAF Trustees will make a final decision following that date.

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