



# Healthcare accounting and reporting update

May 19, 2010

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# Agenda

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- ▶ Codification of US GAAP
- ▶ Transparency for municipal-bond investors
- ▶ Not-for-profit mergers and acquisitions
- ▶ Fair value
- ▶ Subsequent events
- ▶ Emerging Issues Task Force Issue No. 09-H
- ▶ International Financial Reporting Standards

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# Codification of US GAAP

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## ▶ Purpose

- ▶ Single official source of authoritative GAAP
- ▶ Reorganizes and simplifies GAAP pronouncements into approximately 90 accounting and reporting topics where all authoritative literature related to a specific topic will be located
- ▶ Supersedes existing FASB, AICPA, EITF and related standards

## ▶ Objectives

- ▶ Reduce time and effort when performing accounting research
- ▶ Improve usability of the literature to help obtain better compliance with the standards
- ▶ Provide real-time updates as new standards are released
- ▶ Eliminate conflicts in GAAP

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# Codification structure

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- ▶ Displays all topics using a consistent structure –
  - ▶ Accounting Standards Codification (ASC) XXX-YY-ZZ-PP.
- ▶ Topics (XXX)
  - ▶ Presentation, Financial Statement Account Topics (Assets, Liabilities, Equity, Revenue, and Expenses), Broad Transactions, Industries
  - ▶ Industry Topics include incremental guidance specific to an industry or type of activity (Healthcare topic number is 954.)
- ▶ Subtopics (YY)
  - ▶ Overall Subtopics generally include pervasive guidance for the topic
  - ▶ Additional Subtopics generally provide incremental or unique guidance
- ▶ Sections (ZZ) – Sections are numbered consistently across Subtopics.
- ▶ Paragraphs (PP)
- ▶ Accounting Standards Updates (ASU) will update codification

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# Transparency for municipal-bond investors

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- ▶ Municipal securities include most tax-exempt bonds issued by not-for-profit healthcare organizations
- ▶ Historically access one of four Nationally Recognized Municipal Securities Information Repositories (NRMSIRs)
- ▶ Effective July 1, 2009, municipal-bond investors have free one-stop place to find information
- ▶ Rule amendments approved by the SEC designate the Municipal Securities Rulemaking Board (MSRB) as the central repository
- ▶ MSRB's Electronic Municipal Market Access (EMMA) system ([www.emma.msrb.org](http://www.emma.msrb.org))

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# Not-for-profit mergers and acquisitions

ASU 2010-07

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- ▶ Provides more uniform accounting and reporting for acquisitions and mergers
- ▶ Eliminates the use of the pooling-of-interests method for acquisitions
- ▶ Use of carryover method (similar to pooling-of-interests) for mergers of NFPs
- ▶ Expands disclosure requirements
- ▶ Effective for mergers on or after December 15, 2009 and acquisitions on or after the beginning of the first annual reporting period beginning on or after December 15, 2009

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# Not-for-profit mergers and acquisitions

## Acquisition method

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- ▶ Business combination in which NFP acquirer obtains control of one or more businesses or nonprofit activities
- ▶ Recognize identifiable assets acquired (including intangible assets) and liabilities assumed in connection with the acquisition at fair value as of the acquisition date
- ▶ Recognize the goodwill or the inherent contribution obtained as part of the transaction at the residual value
- ▶ Goodwill and indefinite-lived intangible assets are no longer amortized and are subject to annual impairment testing
- ▶ Transitional impairment evaluation

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# Not-for-profit mergers and acquisitions

## Acquisition method

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- ▶ Intangible asset is identifiable if it is:
  - ▶ Separable (able to be separated, divided from the entity and sold, transferred, licensed, rented or exchanged – regardless of whether the entity intends to do so.)
  - ▶ Arises from contractual or other legal rights, regardless of whether those rights or separable from the entity or from other rights and obligations
- ▶ Difficulty may exist valuing certain assets
  - ▶ Donor lists
  - ▶ Healthcare specific issues
    - ▶ Required operating licenses
    - ▶ Accreditations, designations, certifications
    - ▶ Provider contracts, networks and relationships
    - ▶ Electronic medical records

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# Not-for-profit mergers and acquisitions

## Mergers

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- ▶ Business combination in which the governing boards of two or more NFP entities cede control to create a new NFP entity
- ▶ Neither party dominates the negotiations to form the new entity
- ▶ Carryover method of accounting is retained
- ▶ Reporting from the merger date through the end of the reporting period since entity resulting from merger is a new entity with no prior activities

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# Fair value (ASC 820)

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- ▶ What does it do?
  - ▶ Defines fair value for financial reporting purposes
  - ▶ Establishes a framework for measuring fair value
  - ▶ Expands disclosures about the use of fair value – to allow users to assess the relative reliability of FV measurements and the impact on earnings of “Level 3” measurements
- ▶ What doesn't it do?
  - ▶ Require additional fair value measurements under GAAP
  - ▶ Provide detailed “how to” guidance with respect to valuation
- ▶ Key fair value measurements for healthcare entities
  - ▶ Investments
  - ▶ Derivatives (interest rate swaps)

# Fair value hierarchy

Level	Characteristic	Example
Level 1	Quoted prices in active markets for identical assets or liabilities (unadjusted); no blockage factors (i.e., Price X Quantity).	<ul style="list-style-type: none"><li>▶ Listed equity and fixed income securities traded on an active exchange</li><li>▶ Exchange traded derivatives</li></ul>
Level 2	Other observable inputs – including quoted prices for similar assets or liabilities (adjusted) and market corroborated inputs; discounts for liquidity can be applied	<ul style="list-style-type: none"><li>▶ OTC derivative with value based on observable LIBOR forward interest rate curves</li></ul>
Level 3	Unobservable inputs – entity’s own assumptions about market participant assumptions, including assumptions about risk, developed based on the best information available in the circumstances; may include the entity’s own data; discounts for liquidity can be applied	<ul style="list-style-type: none"><li>▶ Private equity investment</li></ul>

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# Fair value disclosures

ASU 2010-06

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- ▶ Issued in January 2010
- ▶ Purpose is to improve fair value disclosures required by Subtopic 820-10
- ▶ New required disclosures:
  - ▶ Disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measures and describe the reasons for the transfers
  - ▶ In the Level 3 reconciliation, present separately information about purchases, sales, issuances, and settlements (i.e., gross vs. net presentation)

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# Fair value disclosures

ASU 2010-06

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- ▶ Amendments to clarify existing disclosure requirements:
  - ▶ Provide fair value measurement disclosures for each class of assets and liabilities and reconciliation to balance sheet
  - ▶ Provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements (Level 2 and Level 3)
- ▶ Amendments are effective for interim and annual reporting periods beginning after December 15, 2009, except for the gross-up of activity in the Level 3 reconciliation, which is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years

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# Subsequent events (ASC 855)

ASU 2010-09

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- ▶ Issued in February 2010
- ▶ Purpose is to address the interaction of the requirements of Topic 855 with the SEC's reporting requirements and the reissuance disclosure provisions related to subsequent events
- ▶ Main provisions:
  - ▶ An entity that either is an SEC filer or a conduit bond obligor for conduit debt securities that are traded in a public market is required to evaluate subsequent events through the date the financial statements are issued
  - ▶ If an entity meets neither of those criteria, then it should evaluate subsequent events through the date the financial statements are available to be issued

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# Emerging Issues Task Force Issue No. 09-H

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- ▶ EITF has agreed to address certain issues raised by the AICPA Audit and Accounting Guide, *Healthcare Organizations*, overhaul task force
- ▶ Initially discussed at March 18, 2010 EITF meeting
- ▶ Revenue recognition on self pay – no consensus reached; will discuss further at June 2010 meeting
  - ▶ Measure net self pay revenue based on historical experience (bad debt recorded as reduction in revenue)
  - ▶ Record revenue at the amount ultimately collectible when services are performed
  - ▶ Collection must be reasonably assured to recognize revenue (“cash approach”)
  - ▶ Status quo – recognize self pay revenue and record estimate for bad debt as expense

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# Emerging Issues Task Force Issue No. 09-H

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- ▶ Presentation of insurance claims and related recoveries – consensus reached and exposed for comment
  - ▶ Netting anticipated insurance recoveries with estimated liabilities for malpractice claims or similar liabilities is not appropriate
  - ▶ Gross presentation reflects that entity remains obligated for the claim and is exposed to credit risk from the insurer
  - ▶ Significant change in practice; start to discuss with your actuaries
  - ▶ Cumulative effect adjustment at beginning of fiscal year initially applied
  - ▶ Effective date will be determined considering feedback on the proposed ASU

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# Emerging Issues Task Force Issue No. 09-H

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- ▶ Measuring charity care for disclosure - consensus reached and exposed for comment
  - ▶ Retains current requirement to disclose the level of charity care
  - ▶ Requires a single basis for measuring charity care based on the direct and indirect costs of the services provided
    - ▶ IRS Form 990, Schedule H requires similar information
  - ▶ Healthcare entities do not recognize revenue when charity care is provided; therefore proposed ASU will not impact amounts reported on the primary financial statements
  - ▶ Proposed ASU solicited comments about whether measuring charity care based on average rates charged to paying patients for similar services would be a more relevant and useful disclosure
  - ▶ Will require retrospective application, with early adoption permitted

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# International Financial Reporting Standards (IFRS)

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- ▶ No comprehensive healthcare standards in IFRS at this time
- ▶ Impact on healthcare entities relates primary to US GAAP and IFRS convergence projects
- ▶ On February 24, 2010, the SEC expressed its continued support for convergence, but did not make a final determination about the use of IFRS in the US financial reporting system
- ▶ SEC directed the staff to complete a comprehensive work plan that addresses specific factors and areas of concern
- ▶ SEC will use the work plan to make a more informed decision about the use of IFRS in 2011

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# Convergence

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- ▶ US GAAP and IFRS will go through a major transformation before the IFRS conversion becomes mandatory
- ▶ FASB and IASB are working together on eleven major convergence projects under a Memorandum of Understanding with a target date of 2011
- ▶ The ultimate differences between US GAAP and IFRS will not be known for all accounting areas until convergence is completely mapped out

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# Convergence projects

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- ▶ Lease accounting
  - ▶ Tentative decisions reached regarding lessee and lessor accounting under the right-of-use model
  - ▶ Operating leases no longer off-balance sheet
  - ▶ Lessee would recognize an intangible assets for the right to use the leased item and a corresponding liability for payment obligation
  - ▶ Grandfathering of existing leases unlikely
  - ▶ Exposure draft expected second or third quarter of 2010
  - ▶ Final standard expected in 2011
- ▶ Fair value – continue to expand disclosure requirements

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# Healthcare accounting and reporting

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- ▶ Accounting and reporting guidance is complex and requires significant analysis for adoption and continued compliance
- ▶ Several accounting and reporting matters currently being discussed have significant impacts on healthcare organizations
- ▶ Additional transparency in financial reporting will continue to be a trend