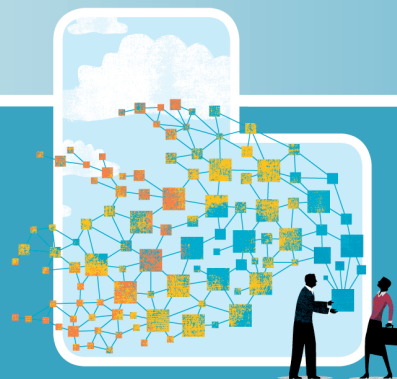


ACCOUNTING AND FINANCIAL REPORTING UPDATE

HFMA Spring Conference
March 2011



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AGENDA

- Healthcare EITF's
- FASB Activities
 - Fair value update
 - Subsequent events disclosure
 - Business combinations – not-for-profit organizations
- FASB Convergence Projects
- California Hospital Fee update

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Healthcare: Emerging Issues

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HEALTHCARE EITF'S (AND ASU'S)

- Numerous healthcare specific standards recently
 - Revision of Audit and Accounting Guide (codification)
 - Elimination of industry specific “carve-outs”
- Multiple issues evaluated
 - Charity care
 - Revenue recognition (bad debt expense)
 - Claims obligations (insurance recoveries)
 - Long-lived asset contributions
 - Discounting of actuarially determined liabilities
 - Legal costs in medical malpractice
- A few issues addressed
 - Charity care
 - Revenue recognition (bad debt expense)
 - Claims obligations (insurance recoveries)

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MEASURING CHARITY CARE FOR DISCLOSURE (ASU 2010-23)

- **Issue:** Healthcare organizations disclose services to qualified charity patients in the notes to the financials statements.
 - Diversity exists on the basis for these disclosures
 - Update requires cost (both direct and indirect)
 - Disclose method used to identify or determine costs
 - Disclose funds received to offset or subsidize charity care
 - Effective for fiscal years beginning after December 15, 2010
 - Retrospective application required
 - Early application permitted

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DISCLOSURE ABOUT NET REVENUE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS (EITF ISSUE NO. 09-H)

- **Issue:** Healthcare organizations may recognize revenue for which the ultimate collection is not reasonably assured at the time services are rendered.
 - Bad debt expense classified as a reduction to net patient service revenues
 - Proposed Update requires additional disclosure by major payor source:
 - Policy for assessing collectibility in the timing and amount of bad debt expense recognized
 - Tabular reconciliation of the activity in the allowance for doubtful accounts for the period
 - Major payor sources of revenue is entity-specific
 - Potential effective date unknown
 - Retrospective application required
 - Early application permitted

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PRESENTATION OF INSURANCE CLAIMS AND RELATED INSURANCE RECOVERIES (ASU 2010-24)

- **Issue:** Healthcare organizations have significant exposure to loss from malpractice and other claims
 - Healthcare organizations currently use “transfer of risk” model with net presentation
 - Other industries accrue claims liabilities and insurance recoveries on gross basis
 - Update requires gross presentation of claims liabilities and insurance recovery receivables
 - Liability should be determined without consideration of insurance recoveries
 - Disclose funds received to offset or subsidize charity care
 - Effective for fiscal years beginning after December 15, 2010
 - Retrospective application permitted (cumulative-effect)
 - Early application permitted

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FAIR VALUE UPDATE

- Changes in the last year related to fair value accounting and reporting:
 - Update No. 2009-05: Measuring Liabilities at Fair Value
 - Update No. 2009-12: Investments in Certain Entities That Calculate Net Asset Value per Share
 - Update No. 2010-06: Improving Disclosures about Fair Value Measurements
 - Proposed Update: Amendments for Disclosure Requirements in U.S. GAAP and IFRSs

FAIR VALUE UPDATE

- Update No. 2009–05: Measuring Liabilities at Fair Value
 - Clarification of fair value measurements for liabilities
- Update No. 2009–12: Investments in Certain Entities That Calculate Net Asset Value per Share
 - Guidance on using net asset value to estimate fair value for alternative investments, hierarchy classification and certain disclosure requirements
 - Applicable for reporting periods **ending after December 15, 2010**
 - NAV = fair value if 1) investment company reporting used and 2) calculated at the measurement date
 - Redeemable at measurement date = Level 2; never redeemable = Level 3, redeemable in future = Level 2 or Level 3

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FAIR VALUE UPDATE

- Additional disclosure example for alternative investments:

	Fair Value (in millions)	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity long/short hedge funds ^(a)	\$ 55		quarterly	30–60 days
Event driven hedge funds ^(b)	45		quarterly, annually	30–60 days
Global opportunities hedge funds ^(c)	35		quarterly	30–45 days
Multi-strategy hedge funds ^(d)	40		quarterly	30–60 days
Real estate funds ^(e)	47	\$ 20		
Private equity funds—international ^(f)	43	15		
Total	\$ 265	\$ 35		

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FAIR VALUE UPDATE

- Update No. 2010-06: Improving Disclosures about Fair Value Measurements
 - Expanded disclosure requirements for fair value measurements
 - Transfers in and out of Levels 1 and 2
 - Level 3 activity disaggregation
 - Class of assets and liabilities disaggregation
 - Valuation techniques and inputs for recurring and non-recurring measurements in Level 2 and Level 3
 - Conforming amendments to employer disclosures for postretirement benefit plan assets (effective December 31, 2009)
 - Effective for periods **beginning after December 31, 2009** except for Level 3 disaggregation
 - Effective for periods **beginning after December 31, 2010** for Level 3 disaggregation

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FAIR VALUE UPDATE

- Proposed ASU (6/29/2010)
 - Redefine certain terms used in fair value measurements
 - Clarifies measurement of fair value for certain instruments measured within a portfolio
 - Blockage factor use clarification
 - Additional disclosure requirements:
 - Measurement uncertainty for Level 3 category (quantify effect)
 - Use of an asset that differs from highest and best
 - Level categorization applicable for financial instrument disclosures (old FAS 107, new Topic 825)

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SUBSEQUENT EVENTS (TOPIC 855)

- ASU No. 2010-09 amends requirement to disclose date through which subsequent events are evaluated:
 - Eliminates “widely distributed” qualitative evaluation for issued vs. available to be issued
 - Explicitly scopes in “conduit debt obligors” to evaluate subsequent events through date financial statements are issued
 - Financial statements are issued when they are widely distributed to shareholders and other financial statement users
 - Filed with clearinghouse
 - Posted to website
 - Filed with Trustee
 - Not applicable to GASB reporters (GASB 56)
 - Effective for interim and annual periods ending after June 15, 2010

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NOT-FOR-PROFIT BUSINESS COMBINATIONS (ASC 958-805)

- Scope:
 - Applies to
 - Transactions or other events that result in a not-for-profit entity initially recognizing another NFP entity, business, or nonprofit activity in its financial statements
 - Does not apply to
 - Joint venture formation
 - Acquisition of assets not constituting a business or nonprofit activity
 - A combination between not-for-profit entities, businesses, or nonprofit activities under common control
 - Situations where a NFP obtains control but does not consolidate the entity

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NOT-FOR-PROFIT BUSINESS COMBINATIONS (ASC 958-805)

- Key Provisions:
 - Mergers are accounted for using the Carryover Method
 - *Merger – combination where 2 or more NFP's cede control and form new NFP*
 - Acquisitions are accounted for using the Acquisition Method
 - *Acquisition – combination where NFP obtains control of another NFP*

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NOT-FOR-PROFIT BUSINESS COMBINATIONS (ASC 958-805)

- Carryover Method – the combined entity carries forward the assets and liabilities of the individual combining entities at their prior book values
 - Similar to old pooling method
 - Combination date on effective date of merger
- Acquisition Method – applies guidance very similar to current for-profit business combination accounting (recording asset and liabilities at fair values) with some key differences
 - Goodwill is NOT recognized if the acquirer expects the operations of the acquiree to be predominantly supported by contributions and returns on investments
 - If otherwise (i.e. the acquiree is businesslike through charging fees to customers), recognize goodwill.
- Goodwill subsequently measured based on ASC Topic 350
 - No amortization; annual evaluation of impairment

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NOT-FOR-PROFIT BUSINESS COMBINATIONS (ASC 958-805)

- Important considerations
 - Acquisition method prevalent; merger accounting rare
 - Non-controlling interest guidance scoped in for NFP's
 - “Minority interest” reported in net assets
 - Transition guidance requires evaluation of existing goodwill at beginning of period of implementation
 - An NFP that is predominantly supported by contributions and returns on investments shall write off previously recognized goodwill by a separate charge in the statement of activities for the effect of the accounting change.
 - An NFP that is not predominantly supported by contributions and returns on investments shall subject previously recognized goodwill to impairment evaluation

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NOT-FOR-PROFIT BUSINESS COMBINATIONS (ASC 958-805)

- Effective Dates
 - Prospectively for mergers and acquisitions in periods beginning on or after December 15, 2009
 - For June 30 year ends, effective for acquisitions/mergers in FY 2011
 - For calendar year ends, effective in FY 2010
 - Early application prohibited

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FASB/IASB CONVERGENCE PLAN

Project	Exposure Draft	Final Statement
Financial Instruments*	May 2010	Q2 2011
FV Measurements	June 2010	Q1 2011
Revenue Recognition*	June 2010	Q2 2011
Leases*	August 2010	Q2 2011
Insurance Contracts	September 2010 (discussion paper)	TBD
Consolidations: Voting Interests, Investment Companies	Roundtable in Q4 2010	TBD
Financial Statement presentation	TBD	TBD
Financial Instruments With Characteristics of Equity	TBD	TBD

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FASB/IASB CONVERGENCE

- Financial Instruments Project: simplify, improve and converge the accounting and reporting of financial instruments
 - Classification and measurement
 - Impairment accounting
 - Hedge accounting

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FASB/IASB CONVERGENCE: FINANCIAL INSTRUMENTS PROJECT

- Important for all not-for-profits:
 - Scope: all financial instruments, with certain exceptions
 - Contributions receivable, contributions payable by NFPs
 - On balance sheet at FV, except for:
 - ST receivables and payables (approx. 1 year or less)
 - Financial liabilities with an accounting mismatch (specific criteria to be met, based on contractual linkage and/or asset composition)
 - Areas of most significant impact: loans, some liabilities
 - 4-year deferral on loans receivable (and core deposits) for nonpublic entities with less than \$1B in assets

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FASB/IASB CONVERGENCE: FINANCIAL INSTRUMENTS PROJECT

- Important for healthcare not-for-profits:
 - FV/OCI option for assets and liabilities held for receipt or payment of contractual cash flows (e.g., loans and debt securities, financial liabilities)
 - Clarifications/improvements to incurred loss model for asset impairments (ASC 310/FAS 114)
 - Removes “probable” threshold for loss recognition
 - Focus on past events and current conditions rather than forecasting future conditions (expected loss model)
 - Consistent now for loans and debt securities (no more OTTI)

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FASB/IASB CONVERGENCE: FINANCIAL INSTRUMENTS PROJECT

- Important for healthcare not-for-profits (cont):
 - Simplifications/ improvements to hedge accounting
 - More qualitative, with lower effectiveness threshold (“reasonably effective” rate than “highly effective”)
 - Equity method accounting:
 - Must not only have significant influence, but the investments must be related to the investor’s consolidated business

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FASB/IASB CONVERGENCE: REVENUE RECOGNITION PROJECT

- Revenue Recognition Model:
 1. Identify the contact(s) with a customer
 2. Identify the separate performance obligations in the contract
 3. Determine the transaction price (credit risk affects measurement, not recognition)
 4. Allocate the transaction price to the separate performance obligations
 5. Recognize revenue when the entity satisfies each performance obligation

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FASB/IASB CONVERGENCE

- Leases Project – Issues
 - Off-balance sheet presentation of leased assets and related financing
 - Bright-line distinction between on- and off-balance sheet; structuring opportunities
 - Very detailed rules

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FASB/IASB CONVERGENCE: LEASES PROJECT

- Current – evaluate the transfer of underlying asset (“all or nothing”)
- Proposed – account for the value of the rights and obligations conveyed through the lease contract (“to the extent of”)
- Present value of cash flows
 - Estimate lease term, considering likelihood of renewal (must be more likely than not)
 - Discount lease payments and contingent rentals using probability-weighted cash flows
 - Exception for ST leases (simple accrual, no discounting)
- FASB/IASB considering significant modifications based on comment feedback

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FASB/IASB CONVERGENCE: LEASES PROJECT

- Lessees:
 - Asset: right to use the leased item for the lease term
 - Liability: obligation for lease payments (at PV)
 - Expense: interest expense and amortization expenses in lieu of rent expense
- Lessors:
 - Asset: right to receive lease payments (at PV)
 - Liability: obligation to make leased item available for use during the lease term
 - Revenue: recognize as the obligation is met
- Potential changes:
 - Financing vs. other than financing

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California Hospital Fee Update

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CALIFORNIA HOSPITAL FEE

- California Quality Assurance Fee Act:
 - QA Fees and Supplemental Revenues are operating expenses and net patient service revenue (reductions in Medi-Cal contractals), respectively
 - Retrospectively approved quarters are recorded at the time the legislation is approved by CMS
 - Prospectively approved quarters are recognized as the quarter elapses
 - Managed care revenue recorded when estimable and measurable (based on timing of receipt)
 - Direct Grant Revenue to designated public hospitals is non-operating for GASB reporters
 - California Health Foundation and Trust agreements depends on the nature of the individually executed agreements

