



# Accounting for Health Care Organizations

Chapter 13



# Learning Objectives

- Account for unique hospital revenue sources
- Prepare journal entries for hospital transactions
- Prepare government hospital financial statements
- Understand key differences between accounting & reporting for government and nongovernment not-for-profit hospitals
- Prepare nongovernment not-for-profit hospital financial statements



# Development of GAAP

- Industry associations – assist in development of GAAP
  - American Hospital Association
  - Healthcare Financial Management Association
- *AIPCA Health Care Organizations* audit guide, together with GASB & FASB standards, constitute GAAP



# Governmental Hospitals

- Report as enterprise activities
- If functioning as separate legal entity, hospital will be a special purpose government engaged in business-type activities
- Primary difference from other BTAs will be certain revenue recognition practices



# Governmental Hospital Restricted Funds

- Specific Purpose Funds – used to account for assets restricted by donors and grantors
- Plant Replacement & Expansion Funds – used to account for financial resources restricted by donors or grantors for capital asset purposes
- Endowment Funds – used to account for principal of permanent endowments, term endowments, and similar gifts



# Unique Measurement & Display Features

- Distinguishing primary activities
- Classes of revenues
- Gains
- Donations
- Expense classification
- Restricted assets
- Property, plant, & equipment



# Distinguishing Primary Activities

- Health Care Audit Guide applies FASB Concept #6
  - Revenues and expenses come from ongoing major or central operations
  - Gains and losses are incidental items
- GASB #34 adopts these same ideas and adds expectation of consistency with operating cash flows



# Reporting issue

- Revenue for one hospital may be gain for another
- Contributions
  - Could be revenue if hospital has major, ongoing fund-raising activity
  - Will still be nonoperating revenue in governmental hospital
  - For hospitals without ongoing fund-raising activity, contributions are gains





# Classes of Revenues

- Patient service revenues
  - Daily patient services
  - Other nursing services
  - Other professional services
- Premium fees – revenues from other organizations based on agreement to provide services for specific fee
- Other revenues – derived from ongoing activity other than patient services



# Deductions from patient service revenues

- Charity services – indigent patients
- Policy discounts – members of groups that receive discounts as a result of hospital policy
- Contractual adjustments – third-party payments that are lower than standard rates by contract
- Uncollectible accounts



# Contractual Adjustments

- Reimbursement rates based on national or regional averages
- Standard hospital rates not based on cost
- Difference needs to be adjusted at time service is provided so that receivables will reflect amount expected to be collected



# Sample patient service

## entries [Page 720 – amounts in thousands]

Accounts & Notes Receivable	1,000	
Revenues – Patient Service		
Charges		1,000

Gross billings for services at established rates.



# Adjustments

Revenue Deductions – Charity Services	40	
Revenue Deductions – Contractual Adjustments	60	
Revenue Deductions – Provision for Uncollectible Accounts Allowance for Uncollectible Receivables & Third-Party Contractuals	50	110
Accounts & Notes Receivable		40



# Financial Reporting

<b>Statement of Net Assets</b>		
Accounts & Notes Receivable	\$960	
Less: Allowance for uncollectible Receivables and Third-Party Contractuals	<u>110</u>	\$850
<b>Operating Statement</b>		
Net Patient Service Revenues (1,000 – 40 – 60 – 50)		\$850



# Typical Gains

- Sales of investments in securities
- Sales of capital assets
- Gifts or donations (may be revenues in some hospitals)
- Investment income (may be revenues in some hospitals)



# Unrestricted & Restricted Gifts and Grants

- Unrestricted gifts, grants, & bequests are typically reported as gains
- Restricted grant rules are the same as for C&Us





# Gifts of Professional Services and Other Items

- Professional services common donation for hospitals
  - Reporting is optional
  - If reported, show as nonoperating revenues
- Gifts of supplies and commodities reported as other revenues or gains



# Expense Classification

- Measurement & recognition criteria same as business entities
- Exceptions for
  - Pensions – follow rules in GASB #27
  - OPEB – follow rules in GASB #45



# Typical Expense Functions

- Nursing services
- Other professional services
- General services
- Fiscal services
- Administrative services
- Other services

May use either natural or functional classifications in operating statement



# Common Examples of Restricted Assets

- Contracts such as bond indentures
- Restrictions by third-party agreements
- Restrictions by donors or grantors

All these are *legal* restrictions



# Restricted Assets

- Cash and investments designated or restricted for long-term purposes are reported as noncurrent assets
- Separate classifications used for
  - Internally designated assets
  - Assets restricted by other than donor or grantor requirements
  - Donor or grantor restrictions
  - Principal of permanent endowments



# Board Designations

- Created at Board's discretion
- *Unrestricted resources* to be used for specific noncurrent or nonoperating purpose



# Nongovernment NFP Hospitals

- Use of the term “restricted” reserved for resources limited by donors or grantors
- Examples of purposes for restrictions
  - Specific operating purposes
  - Additions to capital assets
  - Endowment



# Restrictions lifted by

- Meeting a specific condition – complying with restrictions by spending for specific purposes
- Passage of time – term endowments





# Property, Plant, & Equipment

- Assets recorded at historical cost or fair value for donations
- Depreciation recorded on all assets
- Capitalization policy, method of valuing assets, and depreciation method must be disclosed in notes to financial statements



# Alzona Hospital Example

- Example limited to general ledger accounts
- Characteristics
  - Medium size hospital
  - General short-term health care facility
  - Financing from patient services, fees, donations, and investment earnings
- All amounts in thousands, unless otherwise noted



# #1 Gross charges to patients

[Page 728]

Accounts & Notes Receivable	4,400	
Revenues – Patient Service		
Charges		4,400



## #2 Write-off of receivables

[Page 728]

Allowance for Uncollectible Receivables & Third-Party Contractuals	85	
Accounts & Notes Receivable		85



# #3 Contractual adjustments

[Page 728]


Revenue Deductions – Contractual Adjustments	265	
Accounts & Notes Receivable		265



## #4 Indigent patients [Page 728]

Revenue Deductions – Charity Services	125	
Accounts & Notes Receivable		125

Charity services do not result in patient service revenues since there is no expectation of payment. Level of charity services must be disclosed in the notes; this entry is a good way to capture that information. This disclosure can take several forms: revenue, cost, units, or other statistics.



# Collections and additional write-offs [Page 729]

<b><u>#5 Collections</u></b>		
Cash	3,800	
Accounts & Notes Receivable		3,800
<b><u>#6 Additional write-offs</u></b>		
Allowance for Uncollectible Receivables & Third-Party Contractuals	55	
Accounts & Notes Receivable		55



# #7 Adjustments [Page 730]

Revenue Deductions – Uncollectible Accounts	120	
Revenue Deductions – Contractual Adjustments	25	
Allowance for Uncollectible Receivables & Third-Party Contractuals		145





# Purchase and use of materials

[Page 730]

<b><u>#8 Purchase</u></b>		
Inventory of Materials & Supplies	600	
Accounts Payable		600
<b><u>#9 Use</u></b>		
Expenses – Nursing Services	170	
Expenses – Other Prof Services	50	
Expenses – General Services	319	
Expenses – Fiscal Services	8	
Expenses – Admin Services	3	
Inventory of Materials & Supplies		550



# Paid Accounts Payable and Salaries & Wages [Page 730]

<b><u>#10 Accounts Payable</u></b>	725	
Accounts Payable		725
Cash		
	1,316	
<b><u>#11 Salaries &amp; Wages</u></b>	828	
Expenses – Nursing Services	389	
Expenses – Other Prof Services	102	
Expenses – General Services	65	
Expenses – Fiscal Services		2,700
Expenses – Admin Services		
Cash		



# #12 Other Expenses [Page 731]

Expenses – Nursing Services	86	
Expenses – Other Prof Services	79	
Expenses – General Services	221	
Expenses – Fiscal Services	44	
Expenses – Admin Services	327	
Cash		757



# #13 Year-end Salary Accrual

[Page 731]

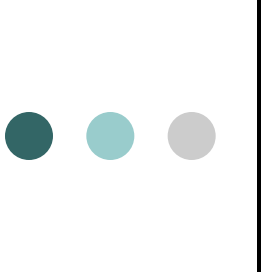
Expenses – Nursing Services	35	
Expenses – Other Prof Services	21	
Expenses – General Services	19	
Expenses – Fiscal Services	6	
Expenses – Admin Services	2	
Accrued Salaries & Wages Payable		83



# #14 Principal & interest payment and interest accrual

[Page 731]

Notes Payable	20	
Expenses – Interest	8	
Cash		27
Accrued Interest Payable		1



# #15 Interest earned during the year on unrestricted investments

[Page 731]

Cash	3	
Accrued Interest Receivable	2	
Nonoperating Gains Unrestricted Investment Income		5



# #16 Unrestricted interest earned on restricted investments [Page 731]

Cash	24	
Nonoperating Gains – Unrestricted Investment Income		24



# #17 Donated professional services

[Page 732]

Expenses – Nursing Services	17	
Expenses – Other Prof Services	3	
Nonoperating Revenues – Donated Services		20

Donated services are objectively valued (fair value). Recognize expense and donation in same entry. Note the net effect on net assets: **zero**.





# #18 Other revenues collected

[Page 732]

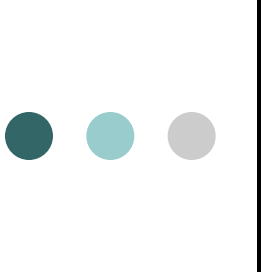
Cash	95	
Revenues – Cafeteria Sales		45
Revenues – TV Rentals		30
Revenues – Medical Record Transcript Fees		15
Revenues – Vending Machine Commissions		5



# #19 General contribution

[Page 732]

Cash	100	
Nonoperating Gains – General Contribution		100



# #20 Bonds issued for construction and debt retirement

[Page 732]

Cash - Construction	2,900	
Cash - Debt Service	100	
Bonds Payable		3,000



# #21 Mortgage payment and contract bill received & paid

[Page 732]

Mortgage Payable	100	
Cash – Debt Service		100
Construction in Progress	2,500	
Cash – Construction		2,375
Contracts Payable – Retained Percentage		125



## #22 Sale of Equipment [Page 732]

Cash	30	
Accumulated Depreciation - Equipment	60	
Nonoperating Losses - Disposal of Capital Assets Equipment	10	100



## #23 Board designation [Page 733]

Investments – Designated for Plant Replacement Investments	100	100
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## #24 Error correction [Page 733]

Equipment	5,000	
Expenses – Gen Services		5,000

An earlier expense entry had included equipment that should have been capitalized.



# #25 Record Depreciation

[Page 733]

Expenses – Nursing Services	150	
Expenses – Other Prof Services	80	
Expenses – General Services	40	
Expenses – Fiscal Services	12	
Expenses – Admin Services	18	
Accumulated Depreciation – Land Improvements		5
Accumulated Depreciation – Buildings		170
Accumulated Depreciation – Equipment		125





## #26 Accrue interest [Page 733]

Expenses – Interest	30,000	
Accrued Interest Payable		30,000



# #27 Restricted government grant received

[Page 733]

Cash – Restricted for Specific Programs	400	
Deferred Grant Revenues		400



# #28 Purchase of investments with grant [Page 733]

Investments – Restricted for Specific Programs	300	
Cash – Restricted for Specific Programs		300



## #29 Investments mature at par

[Page 733]

Cash – Restricted for Specific Programs	150	
Investments – Restricted for Specific Programs		150



# #30 Earnings on restricted investments

[Page 734]

Cash – Restricted for Specific Programs	15	
Nonoperating Gains – Restricted Investment Income		15



# #31 Change in fair value

[Page 734, not in thousands]

Investments – Restricted for Specific Programs	500	
Nonoperating Gains – Restricted Investment Income		500



# #32 Donation – principal to remain intact [Page 734]

Investment – Endowment Contributions to Permanent Endowments	200	200
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# #33 Unrestricted income from endowment investments [Page 734]

Cash	45	
Nonoperating Gains – Unrestricted Investment Income		45





# #34 Restricted earnings

[Page 734, not in thousands]

Cash – Restricted for Plant Replacement & Expansion	15,400	
Nonoperating Gains – Restricted Investment Income		15,400

Earnings are from investments for plant replacement and expansion. Earnings are restricted for plant replacement and expansion.



# #35 Change in value of restricted investments

[Page 734, not in thousands]

Investments – Restricted for Plant Replacement & Expansion	600	
Nonoperating Gains – Restricted Investment Income		600

# #36 Sold investments [Page 734]

Cash – Restricted for Specific Programs	165	
Cash	5	
Investments – Restricted for Specific Programs		165
Nonoperating Gains – Unrestricted Investment Income		5

Investments cost \$165,000 and were sold for \$170,000. Gains are available for unrestricted use.



# #37 Allowable costs under Federal grant [Page 735]

Deferred Grant Revenues	200	
Revenues – Federal Grant		200
Cash	200	
Cash – Restricted for Specific Programs		200

Since allowable costs were included in previously recorded expenses, grant revenues have been earned. Grant revenues had been recorded as deferred when grant was received. Cash is reclassified since earlier expenses had been paid from unrestricted cash.



# #38 Equipment purchase

[Page 735]

Equipment	18	
Cash – Restricted for Plant Replacement & Expansion		18



# #39 Investment earnings

[Page 735]

Cash – Restricted for Specific Programs	25	
Nonoperating Gains – Restricted Investment Income		25



# Government Hospital Financial Statements

- Balance Sheet [Page 738]
- Statement of Revenues, Expenses,  
and Changes in Net Assets [Page 739]
- Statement of Cash Flows [Page 740]



# Balance Sheet

- May use either of two formats:
  - Balance Sheet – used in this example
  - Net Assets used in earlier examples
- Classified presentation more common in Balance Sheet format, but may be used in Net Asset format as well





# Operating Statement

- Same format used for C&Us and Enterprise Funds – no optional formats for this statement
- Revenues reported at net
- Other points
  - Distinguishing different revenue sources
  - Distinguishing between revenues & gains
  - Distinction between expenses & losses



# Statement of Cash Flows

- Use of the direct method required
- No distinction made between unrestricted and restricted cash flows



# Nongovernment NFP Hospital Reporting

- Must follow FASB requirements
- Similarities with government reporting found with
  - Patient service revenues
  - Charity services
  - Deductions from revenues, except for bad debts
  - Premium fee revenues
  - Other revenues
  - Most expenses
  - Assets limited as to use
  - Assets restricted for noncurrent purposes, such as endowment or plant purposes



# Key Reporting Differences

- Use of net asset classifications from FASB #117
- Use of Statement of Operations and separate Statement of Changes in Net Assets
- Reporting changes in net asset classifications
- Reporting net assets released from restrictions
- Differences in SCF



# Nongovernment NFP Hospital Financial Statements

- Balance Sheet [Page 741]
- Statement of Operations [Page 742]
- Statement of Changes in Net Assets  
[Page 742]
- Statement of Cash Flows – example  
shown in textbook is direct method;  
most NFP hospitals use the indirect  
method, so it is shown here [Page 743]