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Audit & Compliance Committee Conference

February 24-25, 2014 | Scottsdale, AZ

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- Fulfilling your fiduciary obligations as board members
- Improving your board performance

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This conference is designed for board members and members of a board Audit and/or Compliance Committee of not-for-profit health care organizations. Compliance officers and other senior leaders in the organization are welcome to accompany board members.

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INTRODUCTION TO HEALTHCARE ACCOUNTING

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**HEALTHCARE
ACCOUNTING ADVISORS**
Goldstein Schechter Koch
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INTRODUCTION TO HEALTHCARE ACCOUNTING

- AUDIT/FINANCE COMMITTEE RESPONSIBILITIES
- HEALTHCARE FINANCIAL STATEMENTS – THE BASICS
- UNDERSTANDING REVENUE RECOGNITION, ALLOWANCES AND ESTIMATES
- KEY RATIOS AND METRICS
- SIGNIFICANT TRANSACTIONS THAT IMPACT THE HEALTHCARE PROVIDER
- CURRENT INDUSTRY TRENDS / PRESSURES

AUDIT / FINANCE COMMITTEE RESPONSIBILITIES

- BOARD OF DIRECTORS
- FINANCE COMMITTEE
- AUDIT COMMITTEE
 - RESPONSIBILITIES
 - MEETINGS



Independent Auditors' Report

Board of Directors
Sample Healthcare Non-Profit Inc.
Hollywood, Florida

We have audited the accompanying consolidated financial statements of Sample Healthcare Non-Profit Inc. (a non-profit organization) and its Subsidiaries ("the Organization"), which comprise the consolidated statements of financial position as of September 30, 2013, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sample Healthcare Non-Profit Inc. as of April 30, 2013, and the changes in their net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

~~Goldstein Schechter Koch, P.A.~~

Hollywood, Florida
December XX, 2013

Sample Healthcare Non-Profit Inc.	
Consolidated Statement of Financial Position	
September 30, 2013	
Assets	
Cash and cash equivalents	\$ 2,450,000
Patient accounts receivable, net of estimated uncollectibles of \$550,000	925,000
Inventory	175,000
Capital assets, net	1,250,000
Intangible asset	100,000
Other assets	25,000
Total assets	\$ 4,925,000

Liabilities and Net Assets	
Liabilities	
Current liabilities:	
Accounts payable	\$ 225,000
Accrued expenses and other liabilities	75,000
Current portion of notes payable	125,000
Current portion of capital lease obligations	375,000
Total current liabilities	800,000
Long-term portion of capital lease obligations	550,000
Long-term portion of notes payable	600,000
Total liabilities	1,950,000
Net assets	
Unrestricted net assets:	
Unrestricted	2,975,000
Total unrestricted net assets	2,975,000
Total liabilities and net assets	\$ 4,925,000

The accompanying notes are an integral part of these consolidated financial statements.

Sample Healthcare Non-Profit Inc.	
Consolidated Statement of Activities	
Year Ended September 30, 2013	
	Unrestricted
Revenue and other support	
Contributions	\$ 500,000
Net patient service revenue	5,500,000
Total unrestricted revenue and other support	6,000,000
Expenses	
Management and general	3,525,000
Total unrestricted expenses	3,525,000
Increase in unrestricted net assets	2,475,000
Net assets - beginning of period	500,000
Net assets - end of period	\$ 2,975,000

Sample Healthcare Non-Profit Inc.	
Consolidated Statement of Functional Expenses	
Year Ended September 30, 2013	
	Management and General
Salaries, wages and benefits	\$ 2,450,000
Professional services	350,000
Supplies	200,000
Purchased services	125,000
Facilities expense	300,000
Management fee	50,000
Other	10,000
Total expenses before depreciation	3,485,000
Depreciation	40,000
Total expenses	\$ 3,525,000

Sample Healthcare Non-Profit Inc.	
Consolidated Statement of Cash Flows	
Year Ended September 30, 2013	
Cash flows from operating activities:	
Change in net assets	\$ 2,475,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	40,000
Changes in operating assets and liabilities:	
Patient accounts receivable	(140,000)
Accounts payable	25,000
Net cash provided by operating activities	2,400,000
Cash flows from investing activities:	
Purchase of capital assets	(375,000)
Net cash used in investing activities	(375,000)
Cash flow from financing activities:	
Payments on capital lease obligations	(75,000)
Net cash used in financing activities	(75,000)
Net increase in cash and cash equivalents	1,950,000
Cash - beginning of period	500,000
Cash - end of year	\$ 2,450,000
Supplemental disclosure of cash flow information:	
Interest paid	\$ 15,000

REVENUES & ACCOUNTING ESTIMATES

- Understanding the Unique Nature of Revenue Recognition
- Allowances
- Accounting Estimates

Statement of Operations	
Patient Service Revenue	\$100,000
Provision for Bad Debts	<u>(20,000)</u>
Net Patient Service Revenue Less Provision for Bad Debts	<u>\$80,000</u>



Example -- Allowances

Allowance Account Example Revenues --	
Patient Revenue	\$250,000
Less Contractual Allowance	<u>(120,000)</u>
Net Patient Revenue	<u>\$130,000</u>

Allowance Account Example Accounts Receivable	
Accounts Receivable	\$250,000
Less Contractual Allowance	<u>(120,000)</u>
Net Accounts Receivable	<u>\$130,000</u>

HEALTHCARE INDUSTRY KEY RATIOS AND METRICS

- What Kind of Metrics
- Keeping Your Eye on the Ball -- The basics
- Medical Group Ratios
- Hospital Ratios



INTRODUCTION TO HEALTHCARE ACCOUNTING

- Transactions Impacting Healthcare Providers
- Current Industry Trends / Pressures



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