

# INTRODUCTION TO HEALTHCARE ACCOUNTING

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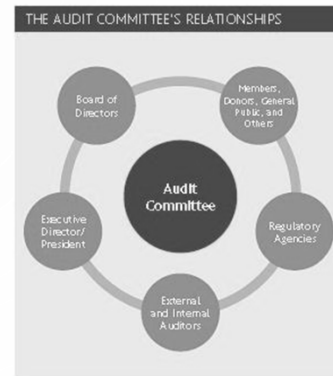


## INTRODUCTION TO HEALTHCARE ACCOUNTING

- 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

| <b>Sample Healthcare Non-Profit Inc.</b>                                  |                     | <b>Liabilities and Net Assets</b>              |                     |
|---|---------------------|--|---------------------|
| <b>Consolidated Statement of Financial Position</b>                       |                     |  |                     |
| <b>September 30, 2013</b>   |                     |  |                     |
| <b>Assets</b>   |                     | <b>Liabilities</b>                             |                     |
| Cash and cash equivalents   | \$ 2,450,000        | Current liabilities:                           |                     |
| Patient accounts receivable, net of estimated uncollectibles of \$550,000 | 925,000             | Accounts payable                               | \$ 225,000          |
| Inventory   | 175,000             | Accrued expenses and other liabilities         | 75,000              |
| Capital assets, net   | 1,250,000           | Current portion of notes payable               | 125,000             |
| Intangible asset  | 100,000             | Current portion of capital lease obligations   | 375,000             |
| Other assets  | 25,000              |  |                     |
| <b>Total assets</b>   | <b>\$ 4,925,000</b> | <b>Total current liabilities</b>               | <b>800,000</b>      |
|   |                     | Long-term portion of capital lease obligations | 550,000             |
|   |                     | Long-term portion of notes payable             | 600,000             |
|   |                     | <b>Total liabilities</b>                       | <b>1,950,000</b>    |
|   |                     | <b>Net assets</b>                              |                     |
|   |                     | Unrestricted net assets:                       |                     |
|   |                     | Unrestricted                                   | 2,975,000           |
|   |                     | <b>Total unrestricted net assets</b>           | <b>2,975,000</b>    |
|   |                     | <b>Total liabilities and net assets</b>        | <b>\$ 4,925,000</b> |

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

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

| <b>Sample Healthcare Non-Profit Inc.</b>             |                           |
|--|---------------------------|
| <b>Consolidated Statement of Functional Expenses</b> |                           |
| <b>Year Ended September 30, 2013</b>                 |                           |
|  | Management<br>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                    |
| <b>Total expenses before depreciation</b>            | <b>3,485,000</b>          |
| <b>Depreciation</b>                                  | <b>40,000</b>             |
| <b>Total expenses</b>                                | <b>\$ 3,525,000</b>       |

| <b>Sample Healthcare Non-Profit Inc.</b>  |                     |
|---|---------------------|
| <b>Consolidated Statement of Cash Flows</b>   |                     |
| <b>Year Ended September 30, 2013</b>  |                     |
| 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              |
| <b>Net cash provided by operating activities</b>  | <b>2,400,000</b>    |
| Cash flows from investing activities:   |                     |
| Purchase of capital assets  | (375,000)           |
| <b>Net cash used in investing activities</b>  | <b>(375,000)</b>    |
| Cash flow from financing activities:  |                     |
| Payments on capital lease obligations   | (75,000)            |
| <b>Net cash used in financing activities</b>  | <b>(75,000)</b>     |
| <b>Net increase in cash and cash equivalents</b>  | <b>1,950,000</b>    |
| Cash - beginning of period  | 500,000             |
| <b>Cash - end of year</b>   | <b>\$ 2,450,000</b> |
| Supplemental disclosure of cash flow information:   |                     |
| Interest paid   | \$ 15,000           |

## REVENUES & ACCOUNTING ESTIMATES

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

| <b>Statement of Operations</b>                           |                 |
|--|-----------------|
| 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

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

| <b>Allowance Account Example Accounts Receivable</b> |                  |
|--|------------------|
| 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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