

CHAPTER 10

NEW REPORTING REQUIREMENTS

Governmental Accounting Standards Board (GASB) Statement No. 34, and related statements and official pronouncements, have made significant changes in the reporting requirements for hospitals. GASB Statement No. 34 reemphasizes the role of the management of the hospitals in determining the content of their financial statements. GASB Statement No. 34 has a phased in implementation period, and will apply differently for certain cities and towns.

GASB Statement No. 34 prescribes a staggered implementation period in three different phases. Phase I governments are required to implement GASB Statement No. 34 for the first financial reporting period beginning after June 15, 2001. Phase II governments are required to implement GASB Statement No. 34 for the first financial reporting period beginning after June 15, 2002. All other governments, referred to as Phase III governments, are required to implement GASB Statement No. 34 for the first financial reporting period beginning after June 15, 2003. Phase I governments are defined as those with at least \$100 million in revenue (excluding extraordinary items) as reported in its 1999 financial report. Phase II governments are defined as those with at least \$10 million, but less than \$100 million, in revenue (excluding extraordinary items) as reported in its 1999 financial report. Phase III governments are defined as those with less than \$10 million in revenue (excluding extraordinary items) as reported in its 1999 financial report. It is our position that net patient service revenue, along with other revenue and nonoperating revenue, should be used as the basis for revenue used in determining these thresholds.

Phase I hospitals have implemented the provisions of GASB Statement No. 34 for their 2002 fiscal year. Based on reviews performed by state board of accounts staff of 1999 audit reports, it appears that virtually all of the county and city hospitals that did not qualify as Phase I governments qualify as Phase II governments. Phase II hospitals will implement the applicable provisions of GASB Statement No. 34 for their 2003 fiscal year. For the hospitals with a September 30 year-end, this will be for the period October 1, 2002, to September 30, 2003. For the hospitals that report on a calendar year, this will be for the period January 1, 2003, to December 31, 2003.

The major implementation requirements for GASB Statement No. 34 are as follows:

1. Audited financial reports will be required to include a Management Discussion and Analysis (MD&A). The MD&A will include a discussion and analysis of certain specific financial events, as prescribed by paragraph 11 of GASB Statement No. 34. The MD&A will be included in the financial report as Required Supplementary Information (RSI).
2. Fund Balance will be replaced with Net Assets in the equity section of the Statement of Net Assets, which was formerly referred to as the Balance Sheet.
3. Contributions will be reported as a separate item in the Statement of Operations (income statement). Further, contributions will no longer be reported in the Statement of Changes in Fund Balance (now referred to as Net Assets).
4. The Cash Flow Statement will be required to be reported using the Direct Method, rather than the Indirect Method, which was previously permissible.
5. Certain other changes in reporting methodology that are too numerous to mention here.

Note that information presented as RSI is not covered by the auditors' opinion in the Independent Auditors' Report. Auditors are required to perform certain limited procedures to ascertain the information contained in the RSI is substantially correct in relation to the financial statements as a whole. Omitted, incomplete or inaccurate required supplementary information will generally result in an explanatory paragraph included after the auditors' opinion in the Independent Auditors' Report. This type of explanatory paragraph would describe the fact the required supplementary information is omitted, incomplete or inaccurate. An explanatory paragraph is not a qualification to auditors' opinion; however, the presence of an explanatory paragraph in the Independent Auditors' Report should be given due consideration, particularly if the hospital has outstanding debt or other items of significance or public interest.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The following is a summary of paragraphs 8-11 of GASB Statement No. 34, which defines the MD&A requirements:

1. The MD&A should precede the financial statements, and is classified as Required Supplementary Information (RSI).
2. Items required to be included in the MD&A (as applicable):
 - a. A brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide. This discussion should include analyses that assist readers in understanding why measurements and results reported in fund financial statements either reinforce information in government-wide statements or provide additional information.
 - b. Condensed financial information derived from government-wide financial statements comparing the current year to the prior year. At a minimum, governments should present the information needed to support their analysis of financial position and results of operations required in c, below, including these elements:
 - (1) Total assets, distinguishing between capital and other assets.
 - (2) Total liabilities, distinguishing between long-term liabilities and other liabilities.
 - (3) Total net assets, distinguishing among amounts invested in capital assets, net of related debt; restricted amounts; and unrestricted amounts.
 - (4) Program revenues, by major source.
 - (5) General revenues, by major source.
 - (6) Total revenues.
 - (7) Program expenses, at a minimum by function.
 - (8) Total expenses.
 - (9) Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers.

- (10) Contributions.
 - (11) Special and extraordinary items.
 - (12) Transfers.
 - (13) Changes in net assets.
 - (14) Ending net assets.
- c. An analysis of the government's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. The analysis should address both governmental and business-type activities as reported in the government-wide financial statements and should include reasons for significant changes from the prior year, not simply the amounts or percentages of change. In addition, important economic factors, such as changes in the tax or employment bases that significantly affected operating results for the year should be disclosed.
 - d. An analysis of balances and transactions of individual funds. The analysis should address the reasons for significant changes in fund balances or fund net assets and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources of future use.
 - e. An analysis of significant variations between original and final budget amounts and between final budget amounts and actual results for the general fund (or its equivalent). The analysis should include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity.
 - f. A description of significant capital assets and long-term debt activity during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.
 - g. A discussion by governments that use the modified approach (paragraphs 23-25) to report some or all of their infrastructure assets including:
 - (1) Significant changes in the assessed condition of eligible infrastructure assets from previous condition assessments.
 - (2) How the current assessed condition compares with the condition level the government has established.
 - (3) Any significant differences from the estimated annual amount to maintain/preserve eligible infrastructure assets compared with the actual amounts spent during the current period.
 - h. A description of currently know facts (information that management is aware of as of the date of the auditor's report), decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results or operations (revenues, expenses, and other changes in net assets).

Note that GASB Statement No. 38 clarified the fact that the MD&A can only contain the items specifically listed in GASB Statement No. 34. It is not permissible for management to include any other items in the MD&A. GASB Statement No. 38 also reiterated the fact that only those items listed in GASB Statement No. 34 should be included in the MD&A. Management should consider the following items, and others as appropriate, when preparing the MD&A:

1. Hospital financial statements are generally presented as business-type activities. Government-wide or government-type statements and schedules would generally not be presented for governmental hospitals.
2. Hospitals generally do not report individual funds or governmental activities in its financial statements.
3. Hospitals generally are not required by state statute or other legal requirements to prepare an annual operating budget. There are, however, some limited exceptions to this rule.
4. Hospitals have generally been reporting infrastructure type assets in its capital assets records. Infrastructure assets could include such items as roads, bridges, sidewalks, etc.

The full text of GASB Statement No. 34, and the related pronouncements and implementation guides may be ordered directly from the Governmental Accounting Standards Board. For more information refer to the GASB website at <http://www.gasb.org>. This website also includes examples of financial statements for certain governments which have implemented Statement No. 34, as well as other information related to Statement No. 34. Other information on hospital accounting and reporting, as well as example financial statements, may be obtained from the government hospital section of the AICPA industry audit guide entitled Health Care Organizations.