

Not-for-Profit Organizations Colleges and Universities Health Care Providers

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Textbook: Government and Not-for-Profit Accounting, Granof

- This presentation contains information, in addition to the material prepared and provided by the professor, from the book Government and Not-for-Profit Accounting, 7th. Ed., Granof which is the textbook assigned for the course CONT 4059 – “Contabilidad para Entidades que no son Negocios” at the University of Puerto Rico, Río Piedras Campus.



Not-for Profit Organizations

Not-for-Profit Organizations

1.1 Standard Setting Jurisdiction

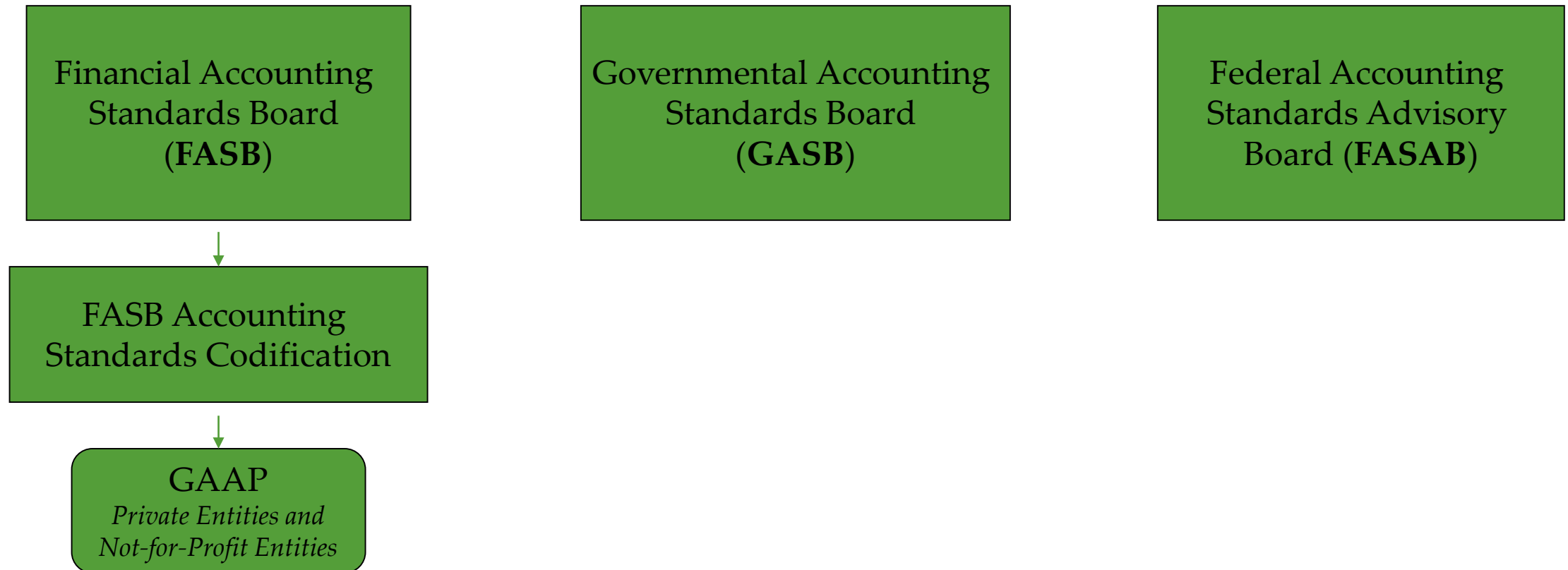
Financial Accounting
Standards Board
(FASB)

Governmental Accounting
Standards Board
(GASB)

Federal Accounting
Standards Advisory
Board (FASAB)

Not-for-Profit Organizations

1.1 Standard Setting Jurisdiction



Not-for-Profit Organizations

1.2 Financial Statements

Not-for-Profit Organizations

1.2 Financial Statements

- FASB Statement No. 117, Financial Statements of Not-for-Profit Organizations, established standards for the form and content of financial statements. The statement provides that not-for-profits must issue three primary financial statements:
 1. **Statement of Financial Position (balance sheet)**
 2. **Statement of Activities**
 3. **Statement of Cash Flows**

Not-for-Profit Organizations

1.3 Statement of Financial Position (Balance Sheet)

Not-for-Profit Organizations

1.3 Statement of Financial Position (Balance Sheet)

- FASB requires that the statement of financial position present six totals:
 - Total Assets
 - Total Liabilities
 - Total Net Assets
 - Total unrestricted net assets
 - Total temporarily restricted net assets
 - Total permanently restricted net assets

Not-for-Profit Organizations

1.3 Statement of Financial Position (Balance Sheet)

- Net Assets:
 - **Unrestricted Net Assets:** Assets without any restriction and available for immediate use.
 - **Temporarily Restricted Net Assets:** Mainly resources that must be used either for specific purposes, in specific periods, or when specified events have occurred.
 - **Permanently Restricted Net Assets:** Ordinarily, endowments with a principal that must remain permanently intact, with only the income available for expenditure.

Not-for-Profit Organizations

ABC Not-for-Profit (Local Affiliate)
Statements of Financial Position
December 31, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
<u>Current Assets</u>		
Cash	\$50,000	\$40,000
Account receivable		
Pledges	150,000	160,000
Bequest	255,000	185,000
Short-term investment	55,000	75,000
<u>Noncurrent Assets</u>		
Building and equipment	215,000	200,000
Less: Accumulated depreciation	(160,000)	(140,000)
Beneficial Interest in perpetual trust	15,000	15,000
Other Assets	<u>5,000</u>	<u>5,000</u>
TOTAL ASSETS	<u>\$585,000</u>	<u>\$540,000</u>

Not-for-Profit Organizations

1.3 Statement of Financial Position (Balance Sheet)

- **Pledges:** Promises to make donations of cash or other assets in the future.

Not-for-Profit Organizations

1.3 Statement of Financial Position (Balance Sheet)

- **FASB Standard (Pledges)**

- Pledges reported as revenue in the period received, need not wait until pledges are fulfilled.
- They should measure the pledges at “*present value of estimated future cash flows using a discount rate commensurate with the risk involved.*” That is, they should take into account both anticipated bad debts and the time value of money.

Not-for-Profit Organizations

1.3 Statement of Financial Position (Balance Sheet)

- **FASB Standard (Pledges)**

- Pledges are classified as:

1. **Unrestricted:** Collected within the year.

Date	DESCRIPTION	DR.	CR.
	Cash	20,000,000	
	Bonds Payable (short-term)		20,000,000
	<i>To record the proceeds of the demand bonds (in capital projects or other fund receiving the bond proceeds).</i>		

Not-for-Profit Organizations

Example 1 – Pledges

- In November, a public broadcasting station conducts its annual pledge drive and receives telephone pledges of \$700,000. By year end December 31, it collects \$400,000 of the pledges. In addition, it receives a pledge from a local foundation to contribute \$100,000 at the end of each of the next three years. Based on previous experience, it estimates that \$60,000 of the entire balances of pledges outstanding at year-end will be uncollectible.

Not-for-Profit Organizations

Example 1 – Pledges

- In November, a public broadcasting station conducts its annual pledge drive and receives telephone pledges of \$700,000. By year end December 31, it collects \$400,000 of the pledges. In addition, it receives a pledge from a local foundation to contribute \$100,000 at the end of each of the next three years. Based on previous experience, it estimates that \$60,000 of the entire balances of pledges outstanding at year-end will be uncollectible.



Not-for-Profit Organizations

Example 1 – Pledges

- In November, a public broadcasting station conducts its annual pledge drive and receives telephone pledges of \$700,000. By year end December 31, it collects \$400,000 of the pledges. In addition, it receives a pledge from a local foundation to contribute \$100,000 at the end of each of the next three years. Based on previous experience, it estimates that \$60,000 of the entire balances of pledges outstanding at year-end will be uncollectible.

Date	DESCRIPTION	DR.	CR.
Nov.	Pledges receivable	400,000	
	Revenues from contributions		400,000
	<i>To record the pledges of cash to be paid in the current year (in an unrestricted fund)</i>		

Not-for-Profit Organizations

Example 1 – Pledges

- In November, a public broadcasting station conducts its annual pledge drive and receives telephone pledges of \$700,000. By year end December 31, it collects \$400,000 of the pledges. In addition, it receives a pledge from a local foundation to contribute \$100,000 at the end of each of the next three years. Based on previous experience, it estimates that \$60,000 of the entire balances of pledges outstanding at year-end will be uncollectible.

Date	DESCRIPTION	DR.	CR.
Dec.	Cash	400,000	
	Pledges receivable		400,000
	<i>To record the collection of cash. (unrestricted fund)</i>		

Not-for-Profit Organizations

Example 1 – Pledges

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Date	DESCRIPTION	DR.	CR.
Nov.	Pledges receivable	300,000	
	Pledges receivable – allowance for uncollectible		60,000
	Revenue from contributions		240,000
	<i>To record the pledges expected to be collected in future periods (in a temporarily restricted fund)</i>		

Not-for-Profit Organizations

Example 1 – Pledges

- In November, a public broadcasting station conducts its annual pledge drive and receives telephone pledges of \$700,000. By year end December 31, it collects \$400,000 of the pledges. In addition, it receives a pledge from a local foundation to contribute \$100,000 at the end of each of the next three years. Based on previous experience, it estimates that \$60,000 of the entire balances of pledges outstanding at year-end will be uncollectible. [**Collection of \$75,000 next year**]

Date	DESCRIPTION	DR.	CR.
Next	Net asset release from restriction	75,000	
Year	Pledges receivable		75,000
	<i>To release the resources from restriction upon collection of cash (temporarily restricted fund)</i>		

Not-for-Profit Organizations

Example 1 – Pledges

- In November, a public broadcasting station conducts its annual pledge drive and receives telephone pledges of \$700,000. By year end December 31, it collects \$400,000 of the pledges. In addition, it receives a pledge from a local foundation to contribute \$100,000 at the end of each of the next three years. Based on previous experience, it estimates that \$60,000 of the entire balances of pledges outstanding at year-end will be uncollectible. [**Collection of \$75,000 next year**]

Date	DESCRIPTION	DR.	CR.
Next	Cash	75,000	
Year	Net assets release from restriction		75,000
	<i>To record the collection from restriction (unrestricted fund)</i>		

Not-for-Profit Organizations

1.3 Statement of Financial Position (Balance Sheet)

- **Conditional Promises:** Donors may promise to contribute to a not-for-profit on condition that a specified event take place or that the entity take specified actions.
- **FASB Statement:** Stipulates that conditional promises to give shall be recognized when the conditions on which they depend are substantially met.

Not-for-Profit Organizations

ABC Not-for-Profit (Local Affiliate)
Statements of Financial Position
December 31, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
<u>Current Assets</u>		
Cash	\$50,000	\$40,000
Account receivable		
Pledges	150,000	160,000
Bequest	255,000	185,000
Short-term investment	55,000	75,000
<u>Noncurrent Assets</u>		
Building and equipment	215,000	200,000
Less: Accumulated depreciation	(160,000)	(140,000)
Beneficial Interest in perpetual trust	15,000	15,000
Other Assets	<u>5,000</u>	<u>5,000</u>
TOTAL ASSETS	<u>\$585,000</u>	<u>\$540,000</u>

Not-for-Profit Organizations

ABC Not-for-Profit (Local Affiliate)
Statements of Financial Position
December 31, 2016 and 2015

<u>LIABILITIES</u>	<u>2016</u>	<u>2015</u>
<u>Current Liabilities</u>		
Accounts payable	\$15,000	\$20,000
Accrued liabilities	28,000	40,000
Payable to National Center	20,000	20,000
Award payable	10,000	10,000
<u>Noncurrent Liabilities</u>		
Payable to National Center	190,000	200,000
Other liabilities	<u>10,000</u>	<u>10,000</u>
TOTAL LIABILITIES	<u>\$ 273,000</u>	<u>\$300,000</u>

Not-for-Profit Organizations

ABC Not-for-Profit (Local Affiliate)
Statements of Financial Position
December 31, 2016 and 2015

<u>Net Assets</u>	<u>2016</u>	<u>2015</u>
Unrestricted	\$242,000	\$150,000
Temporarily Restricted		
Short-term Investment	55,000	75,000
Permanently Restricted		
Beneficial interest in perpetual trust	<u>15,000</u>	<u>15,000</u>
TOTAL NET ASSETS	<u>312,000</u>	<u>240,000</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$585,000</u>	<u>\$540,000</u>

Not-for-Profit Organizations

1.4 Statement of Activities

Not-for-Profit Organizations

1.4 Statement of Activities

- The statement of activities should focus on the organization as a whole, rather than on individual funds.
- Further, it should report the changes in each of the three categories of net assets.
- The FASB specifies that the statement of activities must break out gains and losses recognized on investment and other assets from revenues and expenses.

Not-for-Profit Organizations

ABC Not-for-Profit (Local Affiliate)
 Statements of Activities
 For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Total</u>
Support and Revenue				
Public contributions	\$200,000	\$ 0	\$ 0	\$200,000
Investment income		7,000	0	7,000
Net assets release from restrictions	<u>27,000</u>	<u>(27,000)</u>	<u>0</u>	<u>0</u>
Total	<u>227,000</u>	<u>(20,000)</u>	<u>0</u>	<u>207,000</u>
Expenses				
Program				
Community services	74,000	0	0	74,000
Support				
Management and general	46,000	0	0	46,000
Fund raising	<u>15,000</u>	<u>0</u>	<u>0</u>	<u>15,000</u>
Total operating expenses	<u>135,000</u>	<u>0</u>	<u>0</u>	<u>135,000</u>
 Excess of Support and Revenue over expenses	 <u>\$ 92,000</u>	 <u>(\$ 20,000)</u>	 <u>\$ 0</u>	 <u>\$ 72,000</u>

Not-for-Profit Organizations

1.4 Statement of Activities

- Statement No. 117 requires that all expenses be reported as decreases in *unrestricted net assets*.

Not-for-Profit Organizations

1.4 Statement of Activities

- **Statement of Functional Expenses and/or Schedule of Programs and Support Expenses**
 - **Examples:**
 - Salaries
 - Rent
 - Professional services
 - Depreciation

Not-for-Profit Organizations

1.4 Statement of Activities

- Investment and Investment Income
 - FASB Statement 124:
 - **Balance Sheet:** Must report the investments at fair value and recognize the changes in fair value as they occur. They should not, however, classify the investments into the three categories (trading, available-for-sale, and held to maturity) as required of businesses.
 - **Statement of Activities:** Interest, dividends, and gains and losses from changes in the fair value of securities should be reported on the statement of activities as increases or decreases in unrestricted net assets, unless they are classified as temporarily or permanently restricted.

Not-for-Profit Organizations

1.4 Statement of Activities

- Depreciation
 - **FASB Statement 93:** Not-for-profit shall recognize the cost of using up the future economic benefits or service potentials of their long-lived tangible assets – depreciation. It requires that they disclose depreciation expense and accumulated depreciation for the period.

Not-for-Profit Organizations

1.4 Statement of Activities

- **Service Contributions (donated services)**
 - **FASB Statement 116:** Prescribes that service contributions should be recognized only if they are of a professional nature and of the type that the entity would ordinarily have had to pay for had they not been donated.

Not-for-Profit Organizations

Example 2 – Services Contribution (donated services)

- The Northern New Mexico Clinic, a not-for-profit health care provider, recruits a local contractor to repair its air conditioning unit. The contractor donated its service. Had the contractor billed the clinic at standard rates, the cost would have been \$12,000.

Not-for-Profit Organizations

Example 2 – Services Contribution (donated services)

- The Northern New Mexico Clinic, a not-for-profit health care provider, recruits a local contractor to repair its air conditioning unit. The contractor donated its service. Had the contractor billed the clinic at standard rates, the cost would have been \$12,000.

Date	DESCRIPTION	DR.	CR.
	Repair and maintenance expense	12,000	
	Revenue from contributed services		12,000
	<i>To recognize revenue and the related expense from contributed services.</i>		



College and Universities

College and Universities

2.1 Standard Setting Jurisdiction

Colleges and Universities
Public

GASB

Colleges and Universities
Private

FASB

College and Universities

2.2 Financial Statements

College and Universities

2.2 Financial Statements

- The financial statement of private (not-for-profit) colleges and universities are similar to a Not-for-Profit organization.

College and Universities

2.3 Revenue

College and Universities

2.3 Revenue

- Tuition and fees
- Gift and private grants
- Sales and service of educational activities
- Revenue from auxiliary enterprises
- Gains (or losses) on sales of investments
- Other income
 - Government appropriations
 - Government grants and contract
 - Endowment (investment) income

College and Universities

2.3 Revenue

- **Tuition and fees:**
 - Revenues and expenditures of an academic term, such as summer session, which is conducted over a fiscal year-end, should be reported totally within the fiscal year in which the program is predominantly conducted. Ex. Summer section.
 - Tuition and fees are recorded net of discount and scholarships.

College and Universities

2.3 Revenue

- **Reimbursement Grants:**

- **FASB No 116:** Reimbursement grants are conditioned on the grantee's incurring qualifying cost. Therefore, they should be accounted for as conditional grants. They should be recognized as revenue only as the grantee incurs qualifying cost.
 - First record the expense:
 - Then, record the receivable and revenue.

College and Universities

2.4 Expenses

College and Universities

2.4 Expenses

- Education and general
 - Instructional and departmental research
 - Libraries
 - Student services
- Operation and maintenance of plant
- General administration
- Expenses of auxiliary enterprises
- Depreciation
- Interest
- Provision for uncollectible students loan



Health Care Providers

Health Care Providers

3.1 Standard Setting Jurisdiction

Health Care Providers

3.1 Standard Setting Jurisdiction

Health Care Providers
Public

GASB

Health Care Providers
Private

FASB

Health Care Providers

3.1 Standard Setting Jurisdiction

- The AICPA's current industry guide, Health Care Entities, is the primary authoritative source for issues not addressed by the FASB.
- Moreover, like other AICPA industry audit guides, it has been incorporated into the FASB's Accounting Standards Codification.

Health Care Providers

3.1 Standard Setting Jurisdiction

- Most, albeit not all, government hospitals and other providers of health care services are operated as business-type activities. They are accounted for in enterprise funds if they are part of a larger government and, therefore, adhere to business-type accounting practices.
- The financial statements are on a full accrual basis, and therefore, similar to those of both not-for-profit and profit-oriented health care.



Health Care Providers

3.2 Financial Statements

Health Care Providers

3.2 Financial Statements

- The basic financial statements:
 - Statement of Financial Position (Balance Sheet)
 - Statement of Operations
 - Statement of Cash Flow
 - Statement of Changes in Net Assets

Health Care Providers

3.3 Financial Position (Balance Sheet)

Health Care Providers

3.3 Financial Position (Balance Sheet)

- **Statement of Financial Position (Balance Sheet)** should distinguish among the net assets as:
 - Unrestricted
 - Temporarily restricted
 - Permanently restricted

Health Care Providers

3.4 Statement of Operations

Health Care Providers

3.4 Statement of Operations

- **Statement of Operations** should classify the revenues as
 - Unrestricted
 - Temporarily restricted
 - Permanently restricted
- Report expenses only as decreases in unrestricted resources.



Health Care Providers

3.5 Revenues

Health Care Providers

3.5 Revenues

- **Patient Care Revenues**

- Routine services (ex. room, board, general nursing)
- Other nursing services (ex. operating room services)
- Professional services (ex. Physicians' services, laboratories, and pharmacy)

- **Other Revenues**

- Contributions
- Educational services
- Miscellaneous sources (ex. Rental of space, auxiliary enterprises, and fees charged for providing medical records.)

Health Care Providers

3.5 Revenues

1. **Patient Care Revenues:** The *AICPA Audit Guide* establishes
 - In general, gross services revenue is recorded in the accounting records on an accrual basis at the health care entity's established rates, regardless of whether the health care entity expects to collect the amount.
 - Any difference between the established rates for provided services and amounts agreed to under agreements with third parties is accounted for as a contractual agreement.

Not-for-Profit Organizations

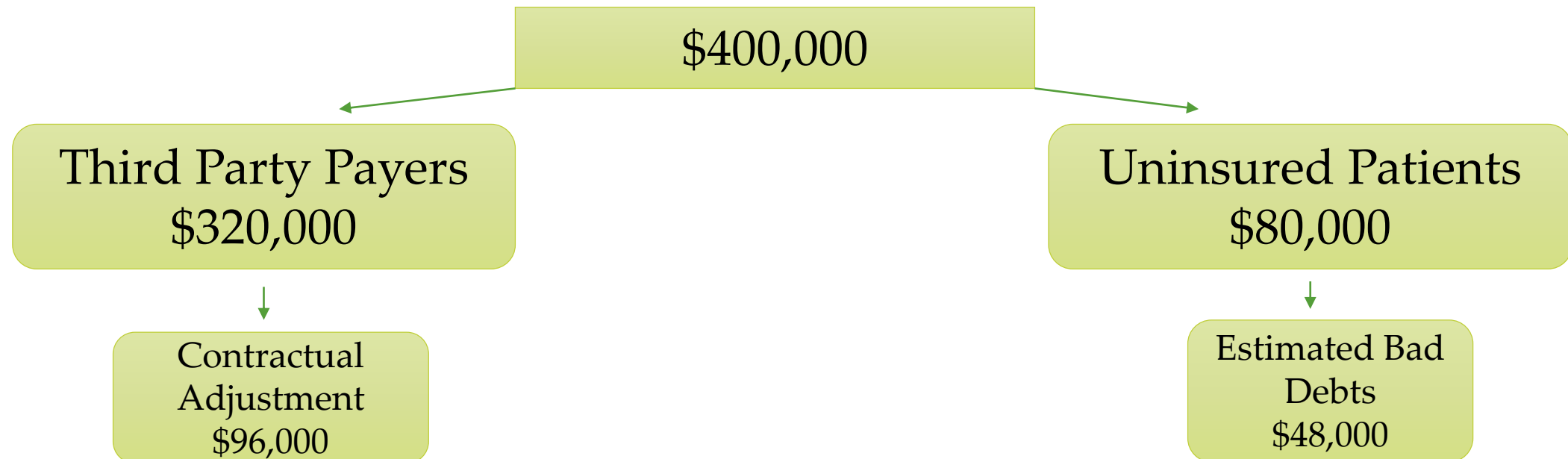
Example 3 – Patient Care Revenue

- During a particular week a hospital records \$400,000 in patient charges. It estimates that 80% (\$320,000) of the charges will be billed to third-party payers who have, on average, negotiated discounts from the invoiced amounts of 30% (\$96,000). The remaining 20% (\$80,000) of the hospital's charges will be billed to patients who are uninsured. Of this 20%, 60% (\$48,000) will be uncollectible.

Not-for-Profit Organizations

Example 3 – Patient Care Revenue

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Not-for-Profit Organizations

Example 3 – Patient Care Revenue

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Date	DESCRIPTION	DR.	CR.
(1)	Patient accounts receivable	400,000	
	Patient Revenue		400,000
	<i>To record one week's patient revenue</i>		

Not-for-Profit Organizations

Example 3 – Patient Care Revenue

- During a particular week a hospital records \$400,000 in patient charges. It estimates that 80% (\$320,000) of the charges will be billed to third-party payers who have, on average, negotiated discounts from the invoiced amounts of 30% (\$96,000). The remaining 20% (\$80,000) of the hospital's charges will be billed to patients who are uninsured. Of this 20%, 60% (\$48,000) will be uncollectible.

Date	DESCRIPTION	DR.	CR.
(2)	Patient revenue – Estimated contractual adjustment	96,000	
	Patient accounts receivable – Allowance for contractual Adj.		96,000
	<i>To establish an allowance for contractual adjustments (30% of \$320,000 that will be paid by third parties)</i>		

Not-for-Profit Organizations

Example 3 – Patient Care Revenue

- During a particular week a hospital records \$400,000 in patient charges. It estimates that 80% (\$320,000) of the charges will be billed to third-party payers who have, on average, negotiated discounts from the invoiced amounts of 30% (\$96,000). The remaining 20% (\$80,000) of the hospital's charges will be billed to patients who are uninsured. Of this 20%, 60% (\$48,000) will be uncollectible.

Date	DESCRIPTION	DR.	CR.
(3)	Patient revenue – Estimated bad debts	48,000	
	Patient accounts receivable – Allowance bad debts		48,000
	<i>To establish an allowance for bad debts (60% of \$80,000 that will be paid directly by patients)</i>		

Not-for-Profit Organizations

Example 3 – Patient Care Revenue

- During a particular week a hospital records \$400,000 in patient charges. It estimates that 80% (\$320,000) of the charges will be billed to third-party payers who have, on average, negotiated discounts from the invoiced amounts of 30% (\$96,000). The remaining 20% (\$80,000) of the hospital's charges will be billed to patients who are uninsured. Of this 20%, 60% (\$48,000) will be uncollectible.

STATEMENT OF OPERATION	
REVENUES	
Revenues from Patient Services	\$400,000
Less: Estimated contractual adjustment	(96,000)
Estimated bad debts	<u>(48,000)</u>
Net Patient Care Revenue	<u>\$256,000</u>

Health Care Providers

3.5 Revenues

2. **Capitation Fees Revenue:** The *AICPA Audit Guide* establishes
 - Revenues from capitation fees “are generated as a result of an agreement to provide health care, rather than from the actual provision of services.”
 - Further, because the revenue is not earned from actual provision of services, it should be reported separately from patient service revenue.

Not-for-Profit Organizations

Example 4 – Capitation Fee Revenue

- A physicians group receives \$300,000 in capitation fees from the Hartford Insurance Company to provide comprehensive health care to members of the company's health plan. During the month it provides services for which it would bill, at standard rates, \$240,000. In addition, it refers patients to hospitals and other health care providers for which it expects to be billed \$18,000.

Not-for-Profit Organizations

Example 4 – Capitation Fee Revenue

- A physicians group receives \$300,000 in capitation fees from the Hartford Insurance Company to provide comprehensive health care to members of the company's health plan. During the month it provides services for which it would bill, at standard rates, \$240,000. In addition, it refers patients to hospitals and other health care providers for which it expects to be billed \$18,000.

Date	DESCRIPTION	DR.	CR.
(1)	Cash	300,000	
	Revenue from capitation fees		300,000
	<i>To record capitation fees received.</i>		

Not-for-Profit Organizations

Example 4 – Capitation Fee Revenue

- A physicians group receives \$300,000 in capitation fees from the Hartford Insurance Company to provide comprehensive health care to members of the company's health plan. During the month it provides services for which it would bill, at standard rates, \$240,000. In addition, it refers patients to hospitals and other health care providers for which it expects to be billed \$18,000.

Date	DESCRIPTION	DR.	CR.
(2)	Patient referrals expense	18,000	
	Patient referrals payable		18,000
	<i>To record liability for patient referrals.</i>		

Health Care Providers

3.5 Revenues

3. Charity Care:

- The Hospital Survey and Construction Act of 1946 (“Hill-Burton Act”) stipulates that hospitals receiving federal construction funds must provide a certain amount of charitable care.
- This care does not result in cash inflows (not revenues).

Health Care Providers

3.5 Revenues

3. Charity Care:

- The AICPA audit guide specifies that gross revenue should exclude charity care.
- However, it also makes clear that health care organizations are obligated to disclose their policies for providing charity care and should indicate the amounts provided based on the provider's direct and indirect costs of providing charity care services.

Not-for-Profit Organizations

Example 5 – Charity Care

- A hospital values care provided to indigent patients at \$1,300,000, based on standard billing rates. However, it anticipates collecting for none of its services.

Not-for-Profit Organizations

Example 5 – Charity Care

- A hospital values care provided to indigent patients at \$1,300,000, based on standard billing rates. However, it anticipates collecting for none of its services.

Date	DESCRIPTION	DR.	CR.
	NO JOURNAL ENTRY		
	The hospital need not make any entry to record the value of the charity care. It should, however, explain its policies and report the total value of the care provided in notes to the financial statements.		

Health Care Providers

3.6 Expenses

Health Care Providers

3.6 Expenses

- Salary and benefits
- Medical supplies and drugs
- Insurance
- Depreciation
- Interest
- Allowance for bad debts receivable for patient care
- Expenses related to grants and contracts
- Malpractice claims or Anticipated legal claims

Health Care Providers

3.6 Expenses

1. Malpractice Costs and Contingencies:

- FASB standards for malpractice and other claims are drawn from FASB Statement No. 5, Accounting for Contingencies, and are therefore that same as for businesses.
- They provide that a health care organization should accrue an estimated loss by a charge to operations as soon as both of the following conditions are met:
 1. It is **probable** that an asset has been impaired or a liability has been incurred,
 2. The **amount** of the loss can be **reasonably estimated**.

Not-for-Profit Organizations

Example 6 – Malpractice Claim

- A hospital has been charged with negligence in the death of a patient. Assume the hospital is able to estimate reasonably that the loss would be \$500,000 (after taking into account insurance recoveries).

Not-for-Profit Organizations

Example 6 – Malpractice Claim

- A hospital has been charged with negligence in the death of a patient. Assume the hospital is able to estimate reasonably that the loss would be \$500,000 (after taking into account insurance recoveries).

Date	DESCRIPTION	DR.	CR.
	Anticipated legal claim – expense	500,000	
	Commitments and contingencies payable		500,000
	<i>To record the estimated cost of setting a potential malpractice claim</i>		

Health Care Providers

3.6 Expenses

2. Retrospective Insurance Premium:

- Anticipated additional insurance premiums should be recognized as expenses in the periods to which they are applicable.