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Financial accounting and reporting by hospitals operated by a governmental unit; Exposure draft (American Institute of Certified Public Accountants), 1977, Aug. 15

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FINANCIAL ACCOUNTING
AND REPORTING
BY HOSPITALS
OPERATED BY A
GOVERNMENTAL UNIT

Proposal to Financial Accounting Standards Board
to Amend AICPA Industry Audit Guide on Audits
of State and Local Governmental Units

EXPOSURE DRAFT

This exposure draft has been prepared for public comment by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants. It has been distributed to Members of Technical Executive Committees of the AICPA; State Society Presidents and Executive Directors; Chairmen of State Society Committees on Accounting Practices; and certain organizations outside the accounting profession. Copies are available to interested persons and organizations on request.

Comments should be sent, in time to arrive not later than October 15, 1977 to --

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File Reference 2850

INTRODUCTION

The AICPA Industry Audit Guide, Hospital Audit Guide, does not specifically address the financial accounting and reporting practices of hospitals that are operated by a governmental unit, but states that the practices it discusses apply to all hospitals. The AICPA Industry Audit Guide on Audits of State and Local Governmental Units refers specifically to government operated hospitals as being within the scope of the Guide. This ambiguity has caused questions to be raised as to the financial accounting and reporting practices that should be followed by hospitals that are operated by governmental units.

Different views exist as to whether the financial activities of a hospital operated by a governmental unit should be accounted for as an enterprise fund or as a special revenue fund. Hospitals accounted for as enterprise funds follow the practices discussed in the Hospital Audit Guide and hospitals accounted for as special revenue funds follow the practices discussed in Audits of State and Local Governmental Units and Governmental Accounting, Auditing and Financial Reporting (GAAFR), published by the National Committee (now Council) on Governmental Accounting.

Since the accounting practices of enterprise funds and special revenue funds differ significantly, the Division believes that Audits of State and Local Governmental Units should be amended to provide uniformity in the financial reporting of hospitals.

THE DIVISION'S CONCLUSION

The Division believes that Audits of State and Local Govern- 1
mental Units should be amended by the addition of the following 2
paragraph as the first full paragraph on page 14 of the Guide: 3

All hospitals that are operated by 4
governmental units should be accounted 5
for as enterprise funds and should 6
follow the requirements of the Hospital 7
Audit Guide published by the AICPA. 8

If all government operated hospitals were accounted for as 9
enterprise funds and followed the Hospital Audit Guide, more 10
comparable financial statements within the hospital industry 11
would result. The attribute currently permitting some govern- 12
ment operated hospitals to be accounted for as special revenue 13
funds instead of enterprise funds is that the hospital is 14
financed primarily from tax and other sources not directly 15
related to services rendered. The Division believes, however, 16
that since almost all hospitals, both those operated privately 17
and those operated as governmental units, rely on some form 18
of outside funding (for example, tax revenues, donations, grants, 19
and interorganizational transfers), source of revenues should not 20
determine the accounting practices followed by hospitals operated 21
by governmental units. 22