

# FASB's NFP Reporting Project

Impact on Health Care Organizations



CliftonLarsonAllen

CLAAconnect.com



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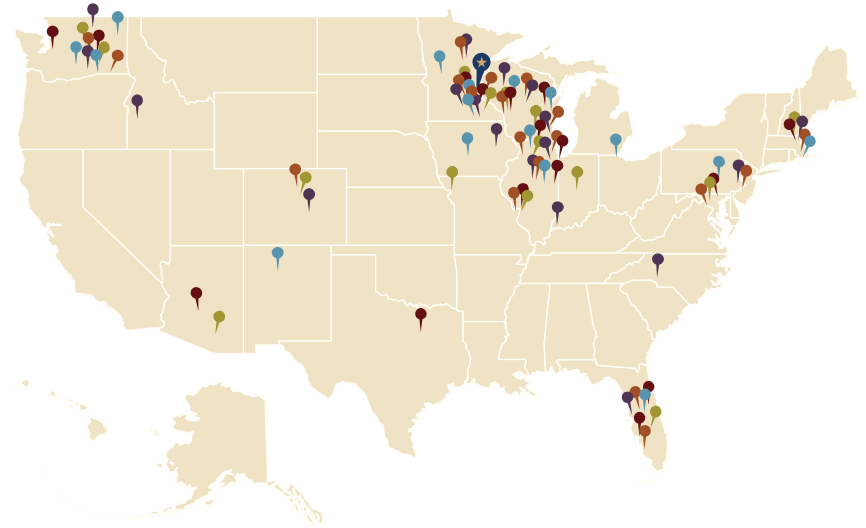
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# About CliftonLarsonAllen

- A professional services firm with three distinct business lines
  - Wealth Advisory
  - Outsourcing
  - Audit, Tax, and Consulting
- 3,600 employees
- Offices coast to coast



*Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC.*

# Speaker Introductions

- **Cathy Clarke**

Cathy is a principal in charge of assurance at CliftonLarsonAllen in their national assurance technical group with over 20 years of experience. Her primary responsibilities include being a technical resource for the not for profit and health care audit and assurance practices and overseeing the quality review of assurance and accounting engagements.

- **Trent Fast**

Trent Fast is a principal with CliftonLarsonAllen in the health care group specializing in senior living services consisting of audit, tax, OMB A-133 audits, and reimbursement advisory. His background includes experience in conducting and issuing audit opinions on financial statements of hospitals and health systems, medical group practices and senior health care organizations.

# Learning Objectives

- At the end of this session, you will be able to:
  - Describe the changes proposed in FASB's exposure draft
  - Explain which elements of a financial statement are impacted by the exposure draft
  - Identify what modifications to your financial reporting will be needed in order to remain in compliance

# Famous Quotes

“Television won't last because people will soon get tired of staring at a plywood box every night:

**Darryl Zanuck**– Movie Producer 20<sup>th</sup> Century Fox, 1946

# Famous Quotes

“There is not the slightest indication that nuclear energy will ever be obtainable. It would mean that the atom would have to be shattered at will

**Albert Einstein, 1932**



# Famous Quotes

“I think there is a world market for maybe five computers...”

**Thomas Watson**– Chairman of IBM, 1943

# Famous Quotes

“The NFP Reporting Project changes will help the reader better understand the liquidity position of NFP Organizations”

**Ron Bossio – FASB Staff**

AICPA NFP Conference – June 2014



# Presentation of Financial Statements of Not-for-Profit Entities

FASB Exposure draft

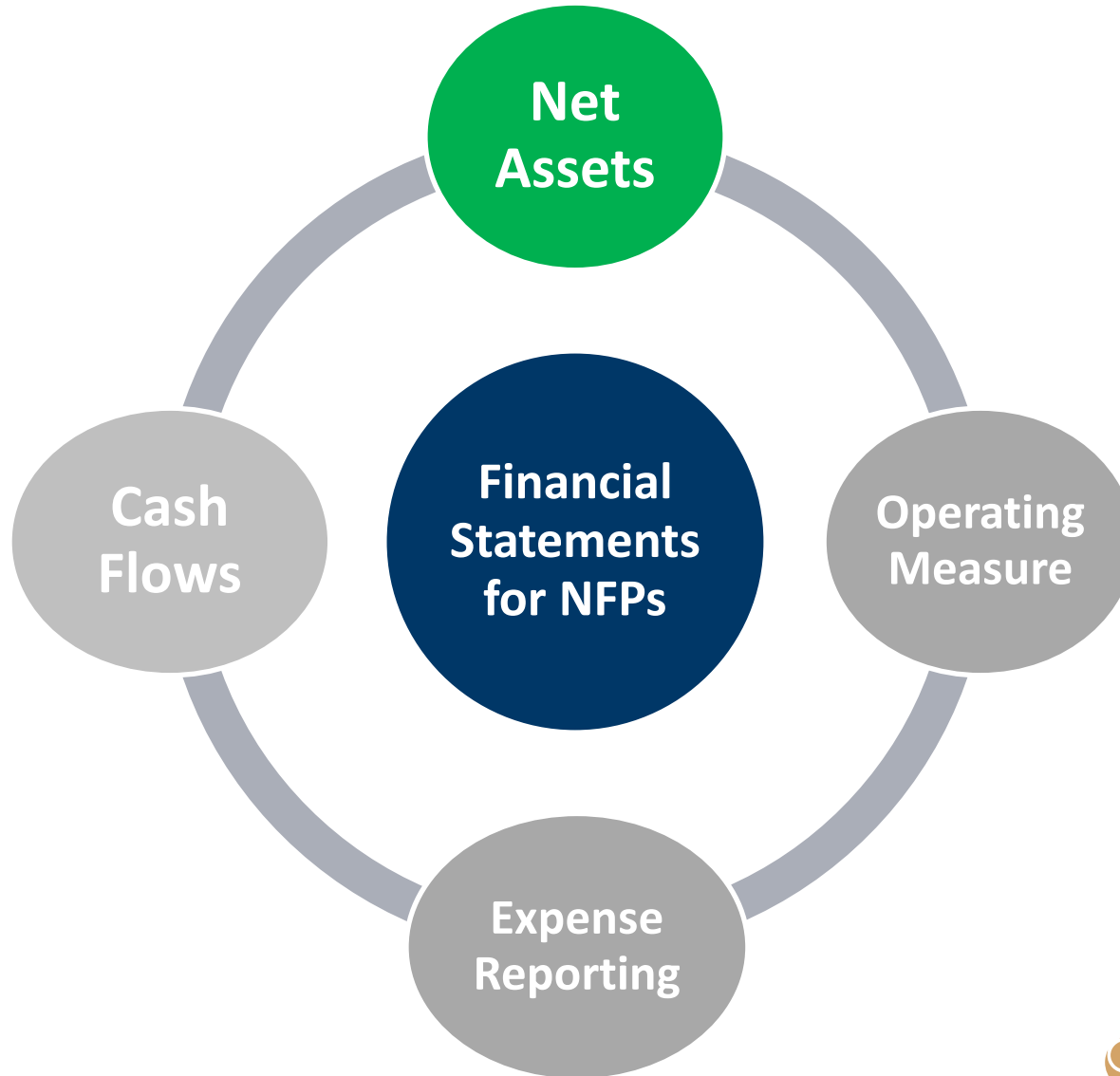


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# FASB Exposure Draft – Presentation of F/S

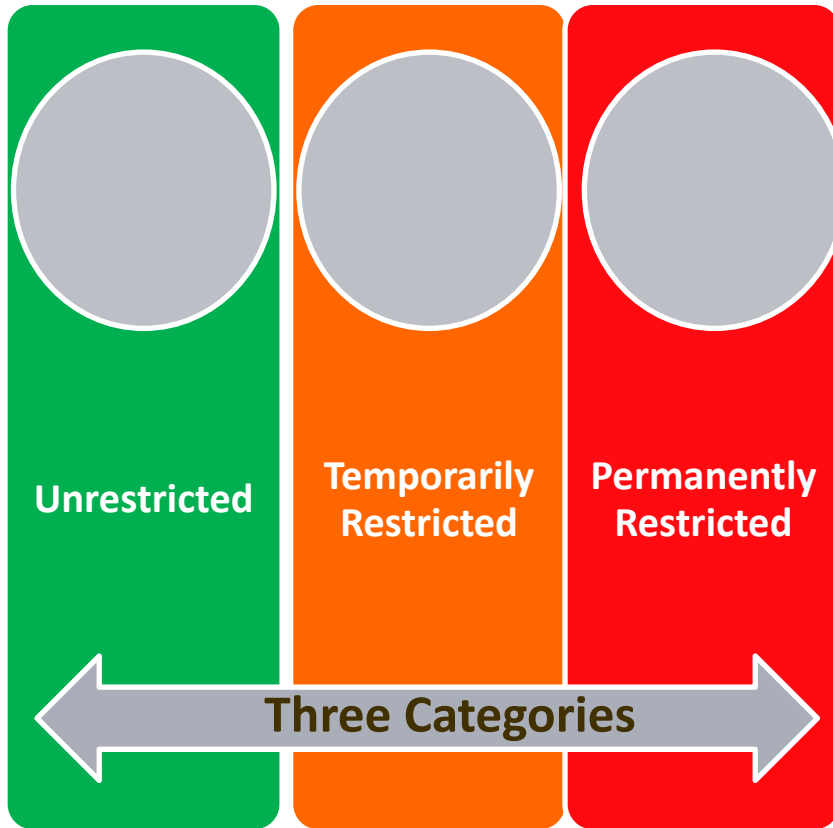
- Exposure draft issued April 22, 2015
- Comment letter due August 20, 2015
- Addressing following four issues:
  1. Net Asset classification complexities
  2. Inconsistencies in reporting operating measure
    - ◇ Liquidity
    - ◇ Financial performance
  3. Inconsistencies in expense reporting
  4. Misunderstanding of statement of cash flows

# Current FASB Projects

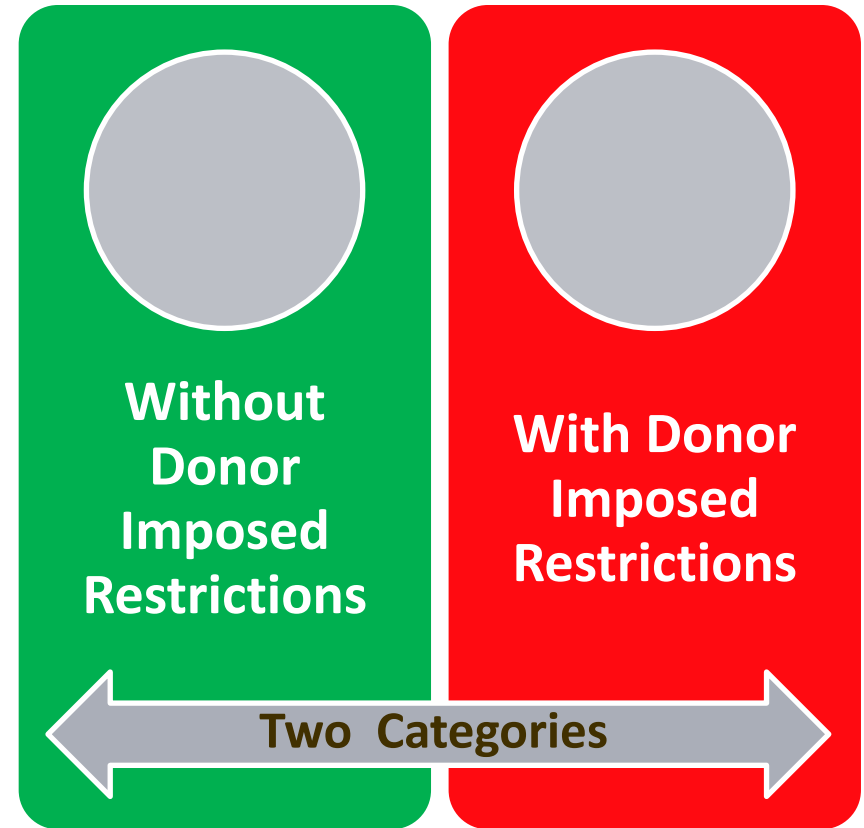


# Net Assets

## Current Presentation



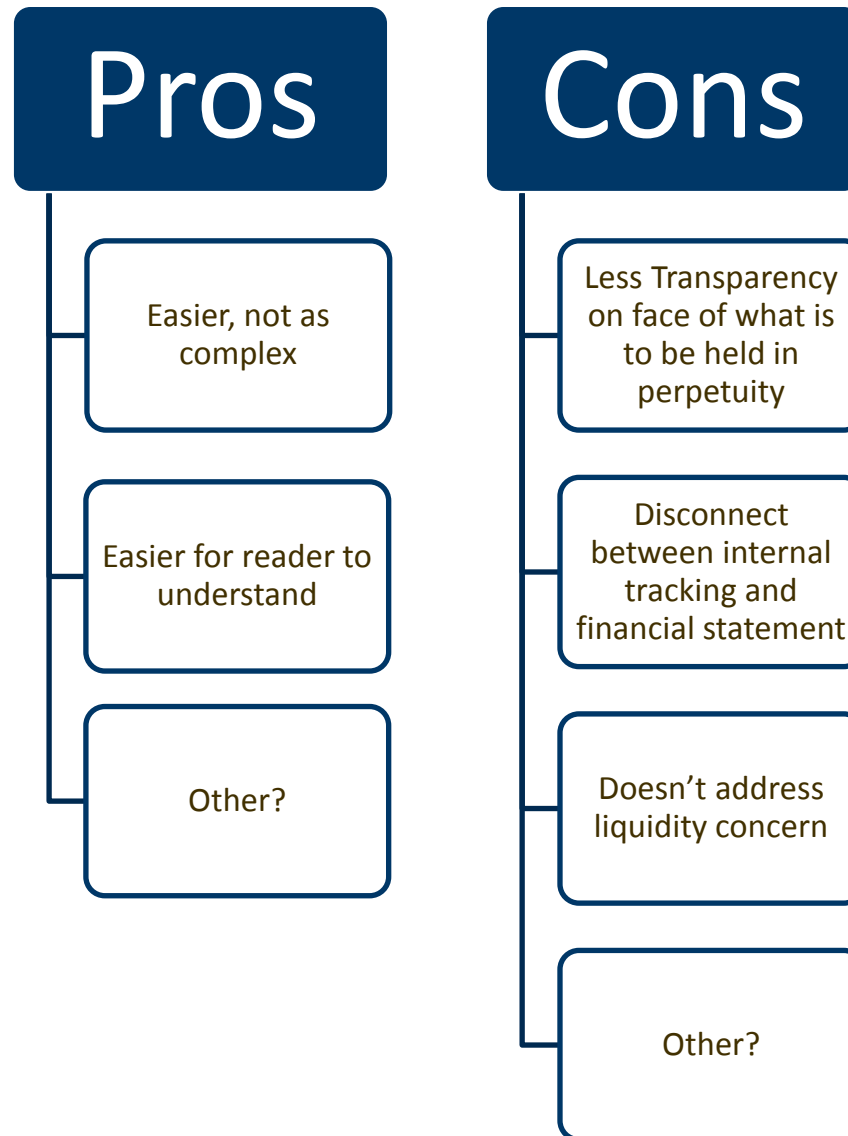
## Proposed Presentation



# Net asset classification requirement

- Two classes
  - *Donor-imposed restrictions*
    - ◇ *Includes perpetual and temporary*
  - *Without donor-imposed restrictions*
    - ◇ *Includes board designated*
- Disclosure requirement:
  - Remove distinction between temporary and permanent restrictions.
  - Emphasis on how/when resources (net assets) can be used.
    - ◇ Specified purpose
    - ◇ Specified time
    - ◇ Perpetual (endowment)
  - Purposes of board designations.

# Presentation of Net Assets

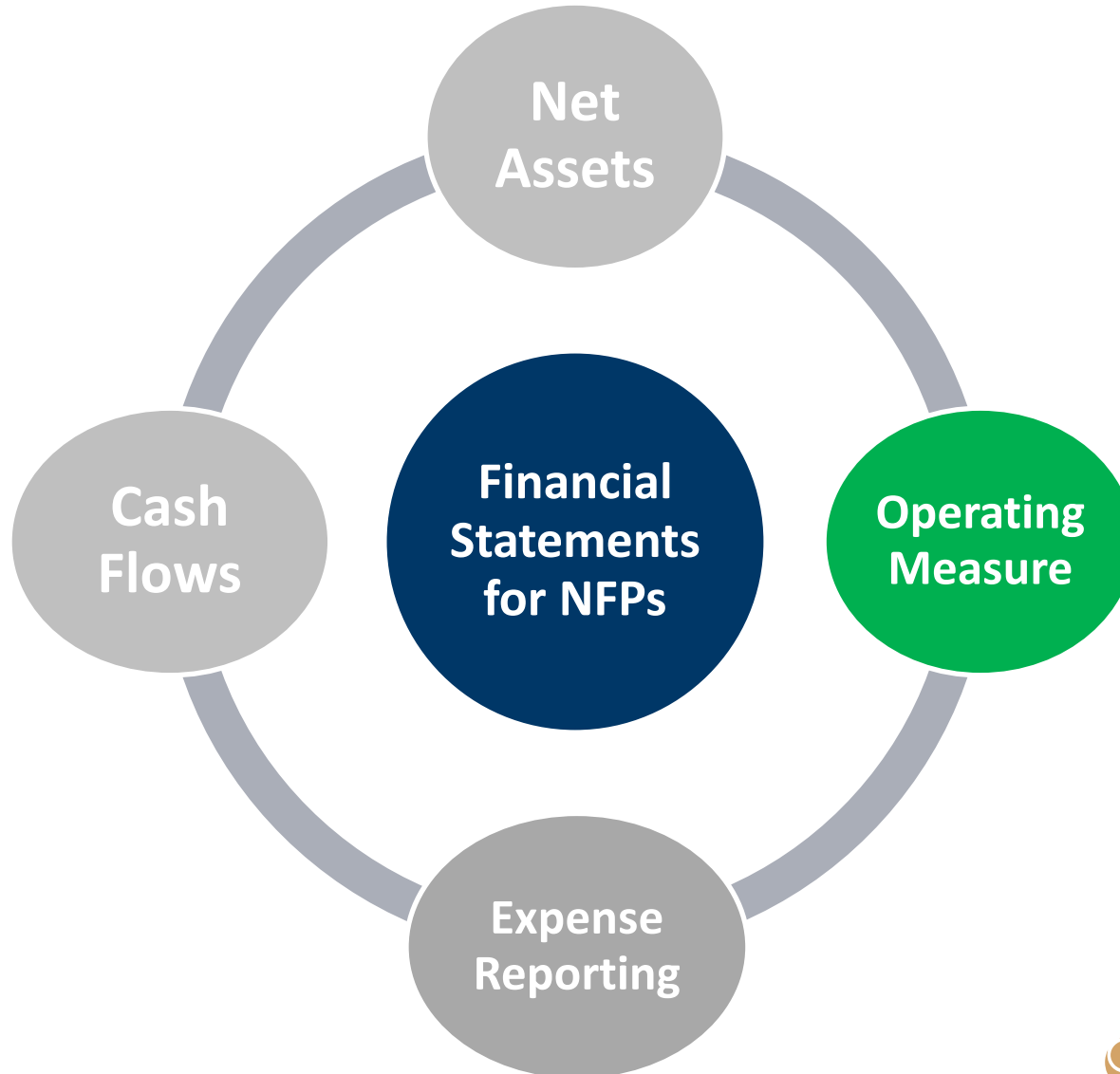




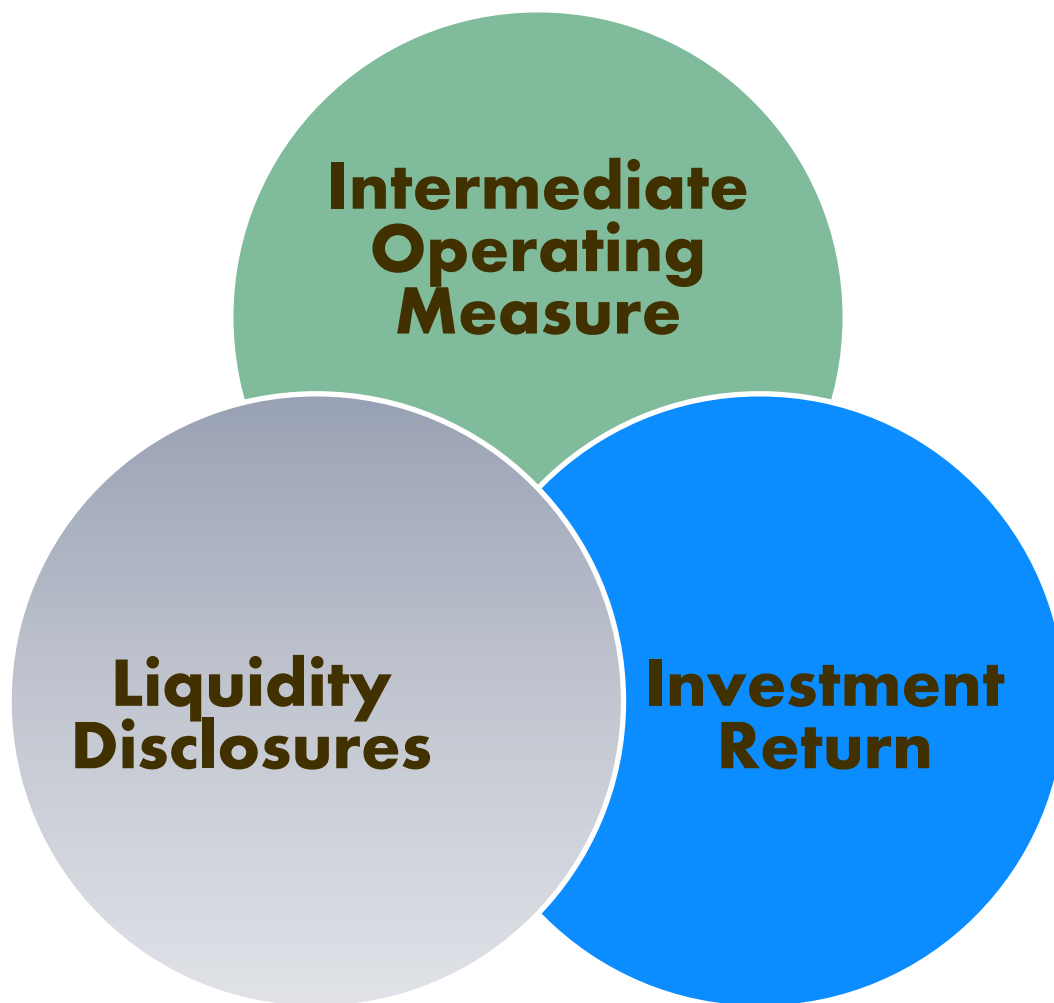
# Underwater Endowments

- Reported within “with donor restrictions” class of net assets.
- Disclose
  - Policy to spend from underwater funds
  - Original gift of underwater funds (in aggregate)
  - Fair value of underwater funds (in aggregate)

# Current FASB Projects



# Operating Measures



# Financial Performance – Intermediate Operating Measure

- Required to present intermediate measure of current operations.
  - Currently optional
  - Eliminates Performance Indicator
- Defined by two key dimensions:
  - Mission
  - Availability (for current operations)

# Operating indicators – 2 is better than 1

- **Operating excess, before transfers**
  - Operating indicator #1
  - Mission based
- Transfers
  - Items relating to availability
- **Operating excess, after transfers**
  - Operating indicator #2

# Mission

- Present all mission-related revenues prior to reductions for amounts designated by the governing board for use in future periods (vs net)
- Gifts may be from carrying out current period activities
  - Transfer out those not be available for current period.
- Investing and financing activities generally would NOT meet definition.
- Equity transactions are also excluded

# Availability

- For current operations
- Internal availability
  - Board Designated
- External availability
  - Gift of long-lived assets
  - Donor restrictions
- Transfer out in year received, transfer in year used

# Items outside of operating indicator

- Investment return (investing)
  - May be able to transfer “available” amount into operations
- Interest expense (financing)
- Equity transactions with affiliates
- Non mission income/expense
- Board designated for future periods
  - Transfers in and out when available
- Pension transactions




**Not-for-Profit Entity - Health Care Entity**  
**Statement of Operations**  
**Year Ended June 30, 20X3**  
(in thousands)

	<u>Without Donor Restrictions</u>
Operating revenues and support:	
Patient revenue, net of contractual allowances and discounts	\$ 660,230
Premium revenue	33,342
Other operating revenue	21,780
Contributions	1,216
Donated property, plant, and equipment	1,940
	<hr/>
	718,508
Expiration of restrictions (Note Y)	6,145
Total operating revenue and support	<hr/> 724,653
Operating Expenses:	
Salaries and benefits	305,900
Purchased services	207,550
Supplies	84,820
Depreciation and amortization	32,040
Bad debt expense	19,777
Other	2,500
Total operating expenses	<hr/> 652,587
Operating excess, before transfers	<hr/> <b>72,066</b>
Transfers to/(from) operating activities:	
Gifted property, plant, and equipment	(3,290)
Operating excess	<hr/> <b>68,776</b>

**Not-for-Profit Entity - Health Care Entity**  
**Statement of Changes in Net Assets**  
**Year Ended June 30, 20X3**  
(in thousands)

	<b>Without Donor Restrictions</b>
Operating excess	68,776
Nonoperating Activity:	
Investment return, net	39,302
Interest expense	(8,450)
Pension-related changes other than net periodic pension costs	2,300
Change in noncontrolling interest	1,100
Transfers (to)/from operating activities:	
Gifted property, plant, and equipment	3,290
Increase from nonoperating activities	37,542
Increase in net assets without donor restrictions	106,318
	<b>With Donor Restrictions</b>
Contributions	\$ 2,390
Expiration of restrictions	(6,145)
Investment return, net	5,152
Increase in net assets with donor restrictions	1,397
Change in net assets	107,715
Net assets at beginning of year	270,250
Net assets at end of year	\$ 377,965

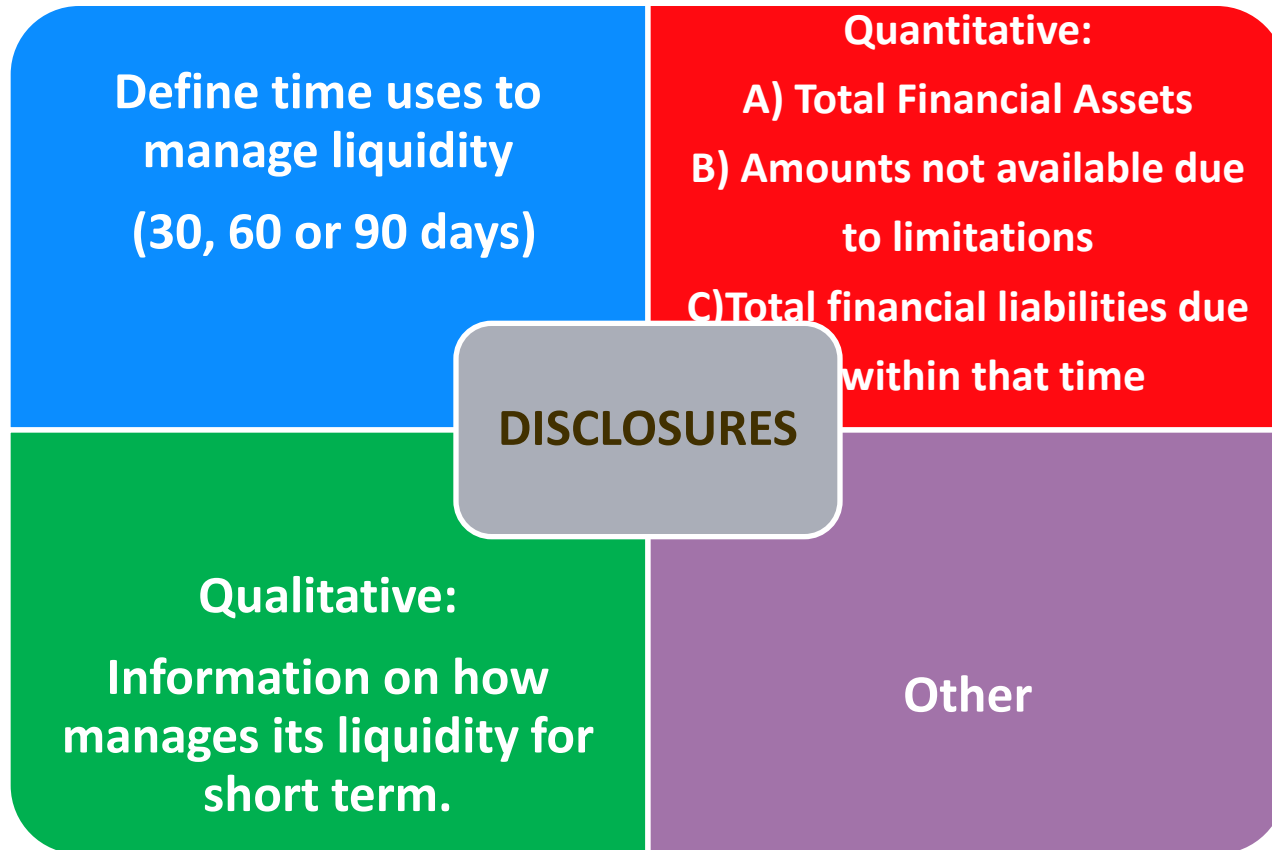
# Intermediate Operating Measure

- Will be allowed to present subtotals
  - Health care  Performance Indicator
  - HC Performance Indicator definition removed from codification
    - ◇ Available for Sale vs. Trading no longer concern for NFP HC
- Still allowed one or two statement approach
- Requirement to show change in unrestricted net assets no longer required.

# Financial Statements – Liquidity Disclosures

- Classified Statement of Financial Position
  - Requirement removed from final exposure draft
- Distinguishing Assets Limited as to Use
  - Requirement to display on face of statement removed from final exposure draft
  - Enhanced note disclosures
  - Still allowed, just not required
- Enhanced note disclosure on external restrictions:
  - Donors
  - Contracts
  - Board of Directors

# Liquidity



# Liquidity

**We suggest.....**

- 1) If policy not already in place, adopt policy addressing liquidity.**
- 2) Review current policy to determine if any changes need to be made prior to implementation of required disclosure.**
- 3) Periodically review to ensure addresses current economic factors.**

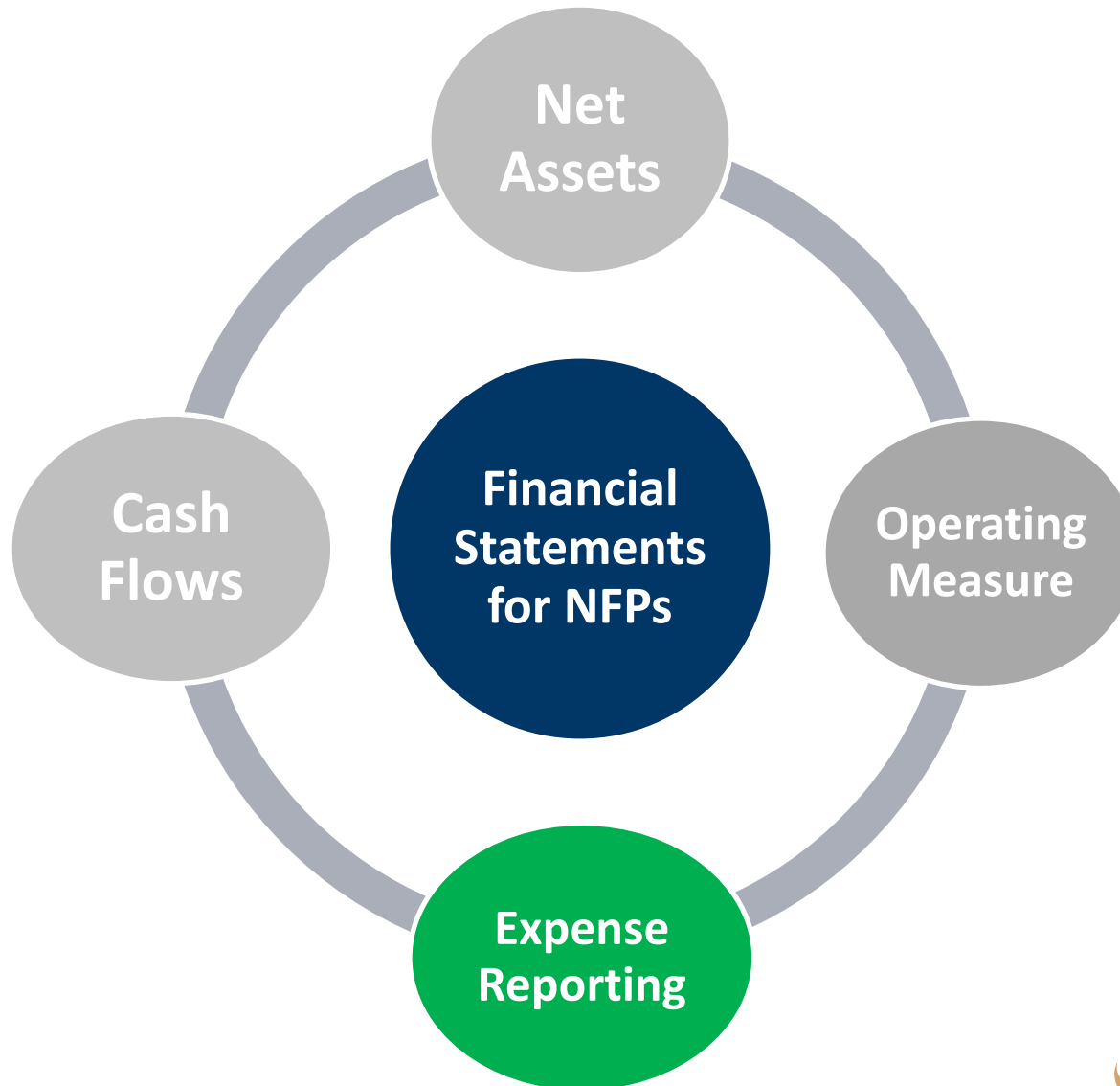
# Investment Return

Net presentation of investment expenses against investment return.

- Both EXTERNAL and direct INTERNAL expenses
- **Removes** requirement to disclose the gross investment income and expense

**P.S.-You should be doing this now!**

# Current FASB Projects







# Reporting of Expenses

NATURE

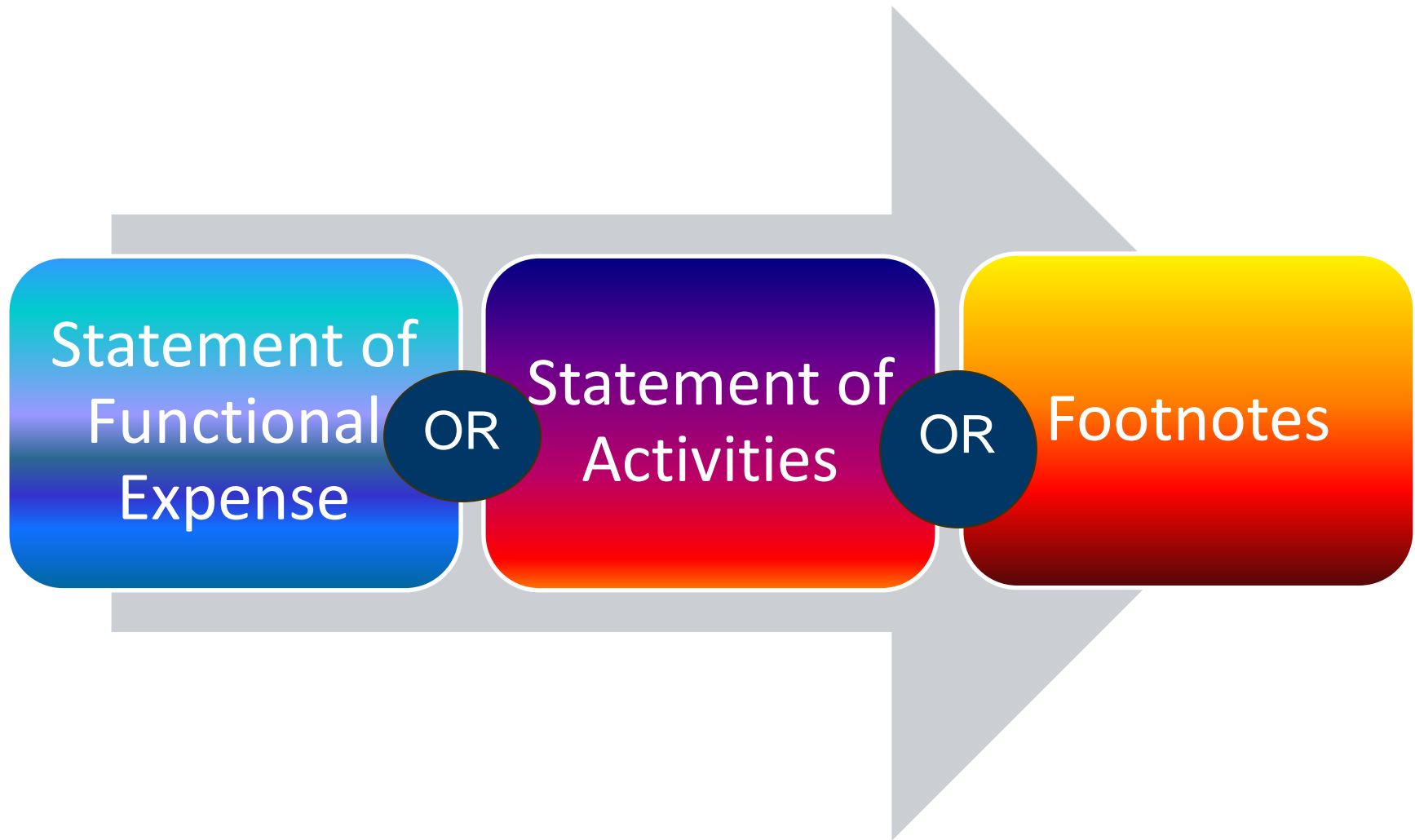
versus

FUNCTION

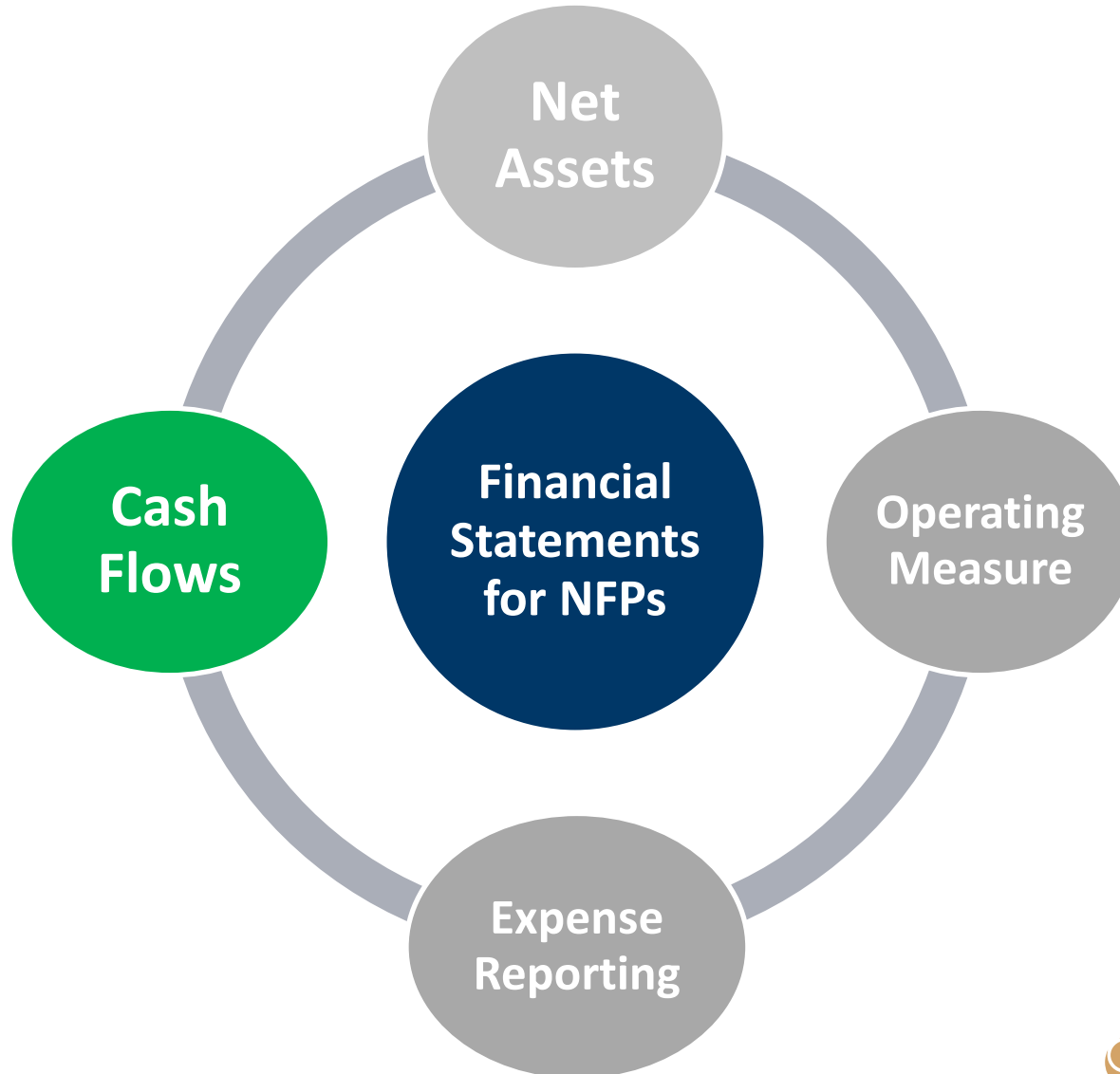
# Reporting of Expenses

- Current requirement  by Function for most NP's
  - No changes for current functional statement requirement if done already , but adds.....
- New requirement  by Nature and all NP's must report expenses functionally!

# Reporting of Expenses – One Location



# Current FASB Projects



# Cash Flow Statement

Can no longer use...



Indirect

Must use.....



Direct

# CASH FLOW - INDIRECT

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 5,454,359	\$ 6,568,768
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,631,197	2,206,748
Change in fair value of interest rate swap	(171,916)	275,686
(Gain)/loss on sale of fixed assets	(1,728,296)	127,660
Investment gains and losses restricted for long-term investment	(17,167)	(6,139)
Changes in operating assets and liabilities:		
Accounts receivable	(534,707)	(1,348,084)
Allowance for doubtful accounts	(162,474)	57,157
Inventories	(25,674)	8,566
Prepaid expenses	(103,977)	23,940
Deposits	9,686	(7,396)
Accounts payable	(277,858)	173,358
Accrued liabilities	785,863	(253,586)
Medicare payable	-	(1,250,000)
Other long-term liabilities	(26,928)	115,656
Net cash provided by operating activities	<u>5,832,108</u>	<u>6,692,334</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of investments	3,770,166	242,734
Purchase of investments	(5,421,395)	(1,506,414)
Purchases of property and equipment	(4,145,423)	(11,076,185)
Proceeds from sale of fixed assets	2,241,857	10,664
Change in funds held by Trustee under bond agreements	4,094	591,201
Net cash used in investing activities	<u>(3,550,701)</u>	<u>(11,738,000)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of new long-term debt	3,084,120	4,229,696
Debt issuance costs	-	(7,616)
Principal payments on long-term debt	(2,398,466)	(935,387)
Net cash provided by financing activities	<u>685,654</u>	<u>3,286,693</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,967,061	(1,758,973)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>8,838,957</u>	<u>10,597,930</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 11,806,018</u>	<u>\$ 8,838,957</u>
Cash paid for interest	<u>\$ 533,233</u>	<u>\$ 536,212</u>
<b>NON-CASH ACTIVITIES</b>		
Donated services and medications	<u>\$ 84,536</u>	<u>\$ 115,096</u>

# CASH FLOW - DIRECT

## CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 1,062,947
Grants and contracts	731,802
Payments to suppliers	(608,699)
Payments to employees	(1,501,107)
Payments for scholarships	(25,035)
Auxiliary	318,494
Gifts for long-term assets used in operations	500,000
Purchases and construction of capital assets	(310,739)
Proceeds from sale of long-lived assets	<u>47,881</u>
Cash flows provided by (used in) operating activities	<u>215,544</u>

## CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	3,314,736
Investment purchased	(3,403,189)
Interest on investments	<u>14,308</u>
Net cash provided by (used in) investing activities	<u>(74,145)</u>

## CASH FLOWS FROM FINANCING ACTIVITIES

Contributions restricted for investment in endowment	248,999
Principal paid on capital debt	(61,297)
Interest paid on capital debt	<u>(51,772)</u>
Net cash provided by (used in) capital and related financing activities	<u>135,930</u>

## NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

277,329

## CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR

56,058

## CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 333,387

# Financial Statements – Cash Flow

Activity	Presentation	Previously...
Cash gifts – for long term assets for operations	Operating	Financing
Cash payments to purchase, construct, or acquire long-lived assets for operating purposes	Operating	Investing
Cash proceeds from sale of long-lived assets	Operating	Investing
Cash dividends and interest income	Investing	Operating
Cash payments of interest expense	Financing	Operating



# Issues addressed?

- FASB's four main objectives:
  1. Net Asset classification complexities
  2. Inconsistencies in reporting operating measure
    - ◇ Liquidity
    - ◇ Financial performance
  3. Inconsistencies in expense reporting
  4. Misunderstanding of statement of cash flows

**If answer NO to any of the above, submit your comment letter to the FASB!**

# Additional Information

- [www.fasb.org](http://www.fasb.org)
- Next steps
  - Exposure Draft issued April 22, 2015
    - ◇ 261 pages
  - Comment Period deadline August 20, 2015
    - ◇ 22 specific questions
  - Re-deliberation through winter 2016
    - ◇ FASB roundtable discussions
  - Final Standard planned for summer 2016

**In the Meantime.....**

**Consider  
use of MD&A to tell your  
story!**

# Questions?



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