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Central Ohio HFMA : Current Issues Update

Accounting and Auditing Update

November 16, 2018

Topics

- New Accounting Standards
  - ASU 2016-14 Not-for-Profit Financial Statement Presentation
  - ASU 2016-02 Leases
  - ASU 2017-01 Clarifying Definition of a Business
  - ASU 2018-13 Disclosure Framework-Fair Value
  - ASU 2018-14 Disclosure Framework- Defined Benefit Plan
  - ASU 2016-18 Restricted Cash
  - ASU 2017-04 Simplifying the Test for Goodwill Impairment
  - ASU 2017-07 Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Pending Accounting Standards

- Balance Sheet Classification of Debt
- Goodwill

When is the Standard Effective?

The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

Public Business Entity

- A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

a. Required to file with the SEC

b. Required by the Securities Exchange Act of 1934 to file with a regulatory agency other than the SEC

c. Required to file with a foreign or domestic regulatory agency in preparation for the sale of securities that are not subject to contractual restrictions on transfer

d. Has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an OTC market

e. Has securities that are not subject to contractual restrictions on transfer, and is required to prepare U.S. GAAP financial statements and make them publicly available on a periodic basis.

- An entity may meet the definition of a PBE solely because its financial information is included in another entity's filing with the SEC.

A Note about Effective Dates

- Who might have an accelerated effective date?
  - Entity that files with the SEC, including Employee Benefit Plans
  - *Public Business Entity*
  - NFP that has issued, or is conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an OTC market
  - Entity whose financial statements are filled with a regulatory agency in preparation for the sale of any class of securities
  - Entity controlled by any of the above

When is the Standard Effective?

For a public entity, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted.

A public entity is an entity that is any one of the following:

1. A public business entity
2. A not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market
3. An employee benefit plan that files or furnishes financial statements to the SEC.

For all other entities (nonpublic entities), the amendments in this Update are effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. A nonpublic entity may elect to apply this guidance earlier, however, only as of the following:

1. An annual reporting period beginning after December 15, 2016, including interim periods within that reporting period (public entity effective date)
2. An annual reporting period beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017
3. An annual reporting period beginning after December 15, 2017, including interim periods within that reporting period.

New Accounting Standards

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ASU 2016-14 Not-For-Profit Financial Statement Presentation

Overview:

Goal of the ASU was to improve the financial statement presentation for not-for-profit entities to provide better information to donors, creditors, and other users of the financial statements

To improve:

- Complexity in net asset classification
- Clarity of information regarding liquidity and availability of cash
- Consistency in reporting expenses by function and nature
- Utility of the statement of cash flows

ASU 2016-14 Not-For-Profit Financial Statement Presentation

Effective for years beginning after December 15, 2017 (**effectively December 31, 2018**)

Must be applied on a *retrospective basis (i.e, December 31, 2017, information in the 2018),* NFPs can elect not to provide certain comparative disclosures in the year of adoption only.

In the initial year of applications, NFPs are required to disclose the nature of any reclassifications or restatements resulting from the adoption and their effect, if any, on the change in net asset classes for each year/period presented.

Financial Statement Presentation for non-for-Profit Entities- Changes to Net Assets Classification

Current GAAP	Unrestricted	Temp. Restricted	Perm Restricted
ASU 2016-14	Without Donor Restrictions	With Donor Restrictions	
+ Disclosures	Amount and purpose of board designations	Nature and amount of donor restriction	

Financial Statement Presentation for Not-for-Profit Entities – Net Asset Presentation

Minimum Presentation Required

Net assets:		
	Without donor restrictions	1,275
	With donor restrictions	7,705
Total net assets		$ 8,980

Alternative Disaggregation Allowed

Net assets:		
	Without donor restrictions	
	Unrestricted	525
	Designated by Board for capital projects	750
		1,275
	With donor restrictions	
	Time restrictions	3,550
	Purpose restrictions	2,155
	Endowment funds	2,000
Total net assets		$ 8,980

Financial Statement Presentation for Not-for-Profit Entities – Increased Disclosures Surrounding Liquidity and Availability

Quantitative information about the availability of a NFP’s financial assets at the balance sheet date to meet the cash needs for general expenditures within one year of the balance sheet date

Examples include disclosing:

- The total amount of financial assets
- Amounts that are not available to meet cash needs within the time horizon because of (1) external limits and (2) internal actions of a governing board
- The total amount of financial liabilities that are due within that time horizon

Financial Statement Presentation for Not-for-Profit Entities- Increased Disclosures Surrounding Liquidity and Availability

Qualitative information about how the entity manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date

Examples of relevant qualitative information

- Minimum cash balance goals
- Use of a line of credit
- Policy for managing excess cash

Financial Statement Presentation for Not-for-Profit Entities – Increased Disclosures Surrounding Liquidity and Availability

1. Liquidity and Availability-Example 1

As of December 31, 2016, XYZ Hospital System has a working capital (deficit) of (85,572) and average days (based on normal expenditures) cash on hand of 7.

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following:

Cash and cash equivalents	$	70,322
Accounts receivable, net		819,074
Investments		144,838
Assets limited to use:		
Board designated		1,200,000
Donor restricted		500,000
	$	2,734,234

The System has certain board designated and donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above. The System has other assets limited to use for donor-restricted purposes, debt service and for the professional and general liability captive insurance program. Additionally, certain other board-designated assets are designated for future capital expenditures and an operating reserve. These assets limited to use, which are more fully described in Notes ___ and ___ are not available for general expenditure within the next year and are not reflected in the amounts above. However, the board-designated amounts could be made available, if necessary.

Source: AICPA Issue Analysis-Liquidity and Availability (Healthcare Entity Considerations)

Financial Statement Presentation for Not-for-Profit Entities – Increased Disclosures Surrounding Liquidity and Availability

As part of the System's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds. Occasionally, the Board designates a portion of any operating surplus to an operating reserve, which was $1,200,000 as of December 31, 2016. This fund established by the board of directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

Additionally, the System maintains a $5 million line of credit, as discussed in more detail in Note X. As of December 31, 2016, $5 million remained available on the System's line of credit.

As of December 31, 2016 the System was in compliance with bond covenants, Note Y.

Financial Statement Presentation for Not-for-Profit Entities – Increased Disclosures Surrounding Liquidity and Availability

1. Liquidity and Availability-Example 2

The table below represents financial assets available for general expenditures within one year at December 31, 2016:

Financial assets at year end:		
Cash and cash equivalents	$	70,322
Accounts receivable, net		819,074
Investments		144,838
Assets limited to use:		
Board-designated		2,950,076
Funds held by trustees		1,119,388
Donor-restricted		1,474,227
Pledges receivable, net		161,757
Trusts and interests in foundations		122,498
Total financial assets		6,862,180
Less amounts not available to be used within one year:		
Board-designated with liquidity horizons greater than one year		(1,750,076)
Funds held by trustees		(1,119,388)
Donor-restricted with liquidity horizons greater than one year		(974,227)
Pledges receivable, net		(161,757)
Trusts and interests in foundations		(122,498)
Financial assets not available to be used within one year		(4,127,946)
Financial assets available to meet general expenditures within one year	$	2,734,234

Source: AICPA Issue Analysis-Liquidity and Availability (Healthcare Entity Considerations)

Financial Statement Presentation for Not-for-Profit Entities – Information about Expenses

- Management and general activities are now more clearly defined as items not identifiable with one or more programs, fundraising or membership development activities.

- Enhanced disclosures about the methods used to allocate costs between functions

- Expenses to be shown by both their function (required by current GAAP) and their nature, as well as analysis of expense by both function and nature
  - Face of the Statement of Activities
  - Separate statement
  - Notes to Financial Statements

Financial Statement Presentation for Not-for-Profit Entities – Information about Expenses

- Definition of Management and General Activities:
- Old Definition:
  - Activities that are not identifiable with a single program, fundraising activity, or membership-development activities but that are indispensable to the conduct of those activities and an entity's existence.
- New Definition:
  - Supporting activities that are not DIRECTLY identifiable with one or more program, fundraising or membership development activities.
- Impact: could reduce amounts allocated to Program Costs

Financial Statement Presentation for Not-for-Profit Entities – Information about Expenses

Program services, defined:

- Activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the NFP exists.
- Those services are the major purpose for and the major output of the NFP and often relate to several major programs.

Financial Statement Presentation for Not-for-Profit Entities – Information about Expenses

- Certain items must remain in M&G (can't allocate to program and fundraising):
  - General recordkeeping and payroll
    - Finance (CFO/Accounting)
    - Including grant accountants, billing, AR, payroll, audit costs, etc.
  - Human resources
  - Budgeting
  - Oversight functions
  - Business management

Financial Statement Presentation for Not-for-Profit Entities – Information about Expenses

- Functional allocation
- Each natural expense has to be allocated into one or more functional categories (i.e. program services & management and general).
- No bright-line definition as to the number of functional expense categories to be used
- May require changes to FY2017 allocations for disclosure in FY2018 financial statements when adopting (to be comparative)

Financial Statement Presentation for Not-for-Profit Entities – Information about Expenses

- Functional allocation
- Methodologies used to allocate between functions
  - Direct allocation
  - Indirect allocation
- Must have documentation to support the allocation methodology

Financial Statement Presentation for Not-for-Profit Entities- Expense by nature and function one place in the F/S (statements of activities, separate statement, or schedule in notes)

	Health Care Services						Support Services		
	Acute	Ambulatory	Physician	Post Acute	Health Plan	Research	MG&A	Fundraising	Total
Salaries and benefits	$ 1,742	$ 321	$ 688	$ 459	$ 229	$ 229	$ 688	$ 229	$ 4,585
Purchased services	885	163	349	233	116	116	349	116	2,329
Supplies	428	79	169	113	56	56	169	56	1,125
Depreciation and amortization	214	39	85	56	28	28	85	28	564
Capitated purchased services	-	-	-	-	246	-	-	-	246
Rentals and leases	57	11	23	15	8	8	23	8	151
Interest	35	7	14	9	5	5	14	5	93
Insurance	5	1	2	1	1	1	2	1	14
Other	241	44	95	64	32	32	95	32	635
	$ 3,608	$ 665	$ 1,424	$ 950	$ 721	$ 475	$ 1,424	$ 475	$ 9,742

*By function is across the columns and by nature is down the left rows

* Source: AICPA Issue Analysis-Natural and Functional Class Presentation (Healthcare Entity Considerations)

Financial Statement Presentation for Not-for-Profit Entities- Expense by nature and function one place in the F/S

(statements of activities, separate statement, or schedule in notes)

	Health Care Services			Support Services		
	North Region	Central Region	South Region	MG&A	Fundraising	Total
Salaries and benefits	$ 1,376	$ 917	$ 1,376	$ 688	$ 229	$ 4,585
Purchased services	699	466	699	349	116	2,329
Supplies	338	225	338	169	56	1,125
Depreciation and amortization	169	113	169	85	28	564
Capitated purchased services	74	49	74	37	12	246
Rentals and leases	45	30	45	23	8	151
Interest	28	19	28	14	5	93
Insurance	4	3	4	2	1	14
Other	191	127	191	95	32	635
	$ 2,923	$ 1,948	$ 2,923	$ 1,461	$ 487	$ 9,742

*By function is across the columns and by nature is down the left rows

* Source: AICPA Issue Analysis-Natural and Functional Class Presentation (Healthcare Entity Considerations)

Financial Statement Presentation for Not-for-Profit Entities – Other Changes

Presentation of operating cash flows:

- Option to present operating cash flows using either direct method or indirect method
- Removes requirement to present or disclose the indirect method reconciliation when using the direct method of reporting cash flows

Investment income:

- Requires reporting of investment return net of external and direct internal investment expenses
- No longer requires disclosures of netted expenses

Long-lived assets:

- Requirement to release donor restrictions that are for the acquisition or construction of long-lived assets when the asset is placed-in-service
- Eliminates the option to release the restriction over time as the asset is depreciated

ASU 2016-02 Leases

Overview:

- Objective of the lease accounting standard was to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet
- Include virtually all leases on balance sheet for lessees
- Must be applied to all leases in place upon implementation (nothing is "grandfathered")
- Leases less than 12 months will be scoped out
- Related party leases

Effective Dates:

- Public entities and NFP entities that are conduit debt obligors- periods beginning after December 15, 2018
- Other others- periods beginning after December 15, 2019

Entities can elect either one of these transition methods

Restate comparative periods:

JAN 1, 2017	JAN 1, 2018	JAN 1, 2019 Dec 31, 2019
Earliest period presented (initial application date)		Effective date
Comparative Period*	Comparative Period	Current Period

OR

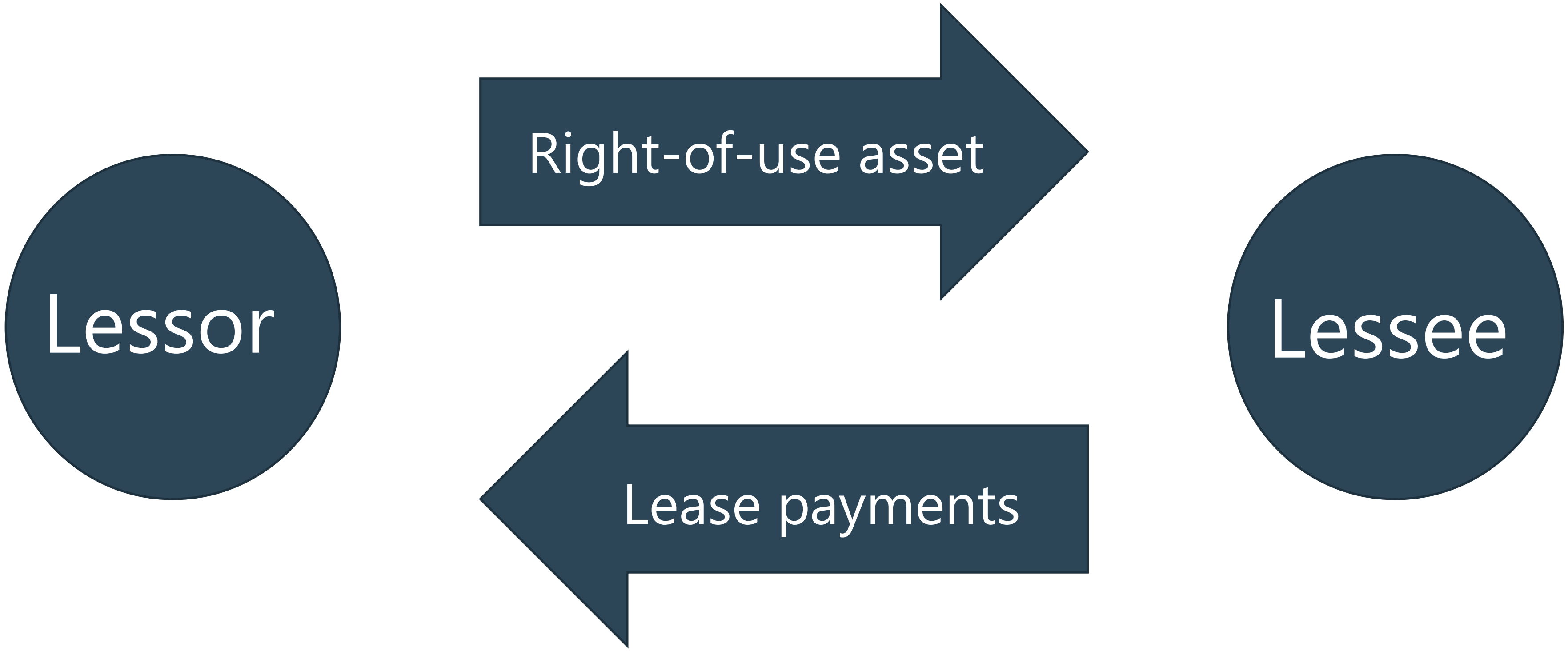
Do not restate comparative periods

JAN 1, 2017	JAN 1, 2018	JAN 1, 2019 DEC 31, 2019
Earliest period presented		Initial application date
Comparative Period*	Comparative Period	Current Period

* Cumulative-effect adjustment to retained earnings

ASU 2016-02 *Leases*

A lease contract conveys the right to use an asset (the underlying asset) for a period of time in exchange



Identifying a Lease

Lease contracts in the scope of Topic 842 involve

- An identified asset
  - That is explicitly or implicitly specified
  - Supplier has no practical ability to substitute and would not economically benefit from substituting the asset
- The right to control the use during the lease term
  - Decision-making authority over the use of the asset (i.e., how and for what purpose the asset is used)
  - The ability to obtain substantially all economic benefits from the use of the asset

Lessee Accounting Model- Comparison to Existing GAAP

FAS 13/ASC 840	ASC 842
Capital lease- reflected as an asset and a liability in the balance sheet Operating lease- no balance sheet recognition	Recognize an asset and obligation for all leases
Exception for short-term leases, which are treated as "rentals"	Similar provision Short-term = 12 months or less
Classification as "capital" or "operating" determines whether lease is capitalized on balance sheet or expensed.	Classification as "financing" or "operating" determines pattern of expense recognition to be used in the income statement, and financial statement classifications

Financing Lease Criteria

If a lease meets any of the following conditions, it is a financing (capital) lease:

FAS 13/ASU 840	AUS 842-10-25-2 and 842-10-55-2
Transfer of ownership	Transfer of ownership
Bargain purchase option	Option to purchase is reasonably certain to be exercised
Lease term > 75% economic life	Lease term is "major" part of economic life; if commencement date is within last 25% of economic life ignore this criteria
PV of payments >90% of fair value	PV of payments and residual guarantee equals or exceeds "substantially all" of FV
	Specialized nature (new)- no alternative use

Lessee Accounting Overview

	Balance Sheet	Income Statement	Cash Flow Statement
Financing Lease	Right-of-use asset Lease liability	Amortization expense Interest expense	Cash paid for principal and interest payments
Operating Lease	Right-of-use asset Lease liability	Single lease expense on a straight-line basis	Cash paid for lease payments

Lessee Accounting Overview

Recognize for all leases (except short-term leases: or if the lease transfers ownership which should be reported as a financed purchase of that asset):

- Lease Asset- equal to lease liability
- Lease Liability – present value of payments to be made

As payments are made – Finance Lease:

- Reduce lease liability and recognize interest expense
- Amortize the lease asset over useful life of the asset (depreciation expense)

As payments are made – Operating Lease:

- Reduce lease liability by payment
- Straight-line amortize the lease asset over the life of the lease as lease expense

Key Questions in Accounting for Leases

What is the term?

- Term: Noncancelable period for which lessee has right to use asset plus periods covered by-
  - *Option to extend if lessee is reasonably certain to exercise the option*
  - *Option to terminate if lessee is reasonably certain not to exercise option*
  - *Renewals or extensions of lease at option of lessor*
- Exception to the general rule to recognize all leases on the balance sheet for leases with terms of 12 months or less

What is the discount rate?

- Rate implicit in the lease is rate that causes the PV of the net investment in the lease to equal sum of:
  - *Fair value of asset minus related investment tax credit*
  - *Capitalized initial direct costs incurred by lessor*
- If rate can not be determined, use incremental borrowing rate
- Other than public business entities may use risk-free rate

Any non-lease components?

- Non-lease components accounted for separately
- Example: equipment lease contract also includes maintenance services
- Allocate contract consideration and initial direct costs to components based on relative standalone price of separate components

Transition: Practical Expedients

Organizations may be able to elect "practical expedients" to ease the burden of adoption

- Package of expedients:
  - No need to reassess whether expired or existing contracts are or contain leases
  - No need to reassess lease classification for any expired or existing leases
  - No need to reassess initial direct cost for existing leases
- May use hindsight in determining the following:
  - Determining the lease term
  - Exercise/non-exercise of extension, termination, and purchase options
  - Assessing impairment of right to use assets

Identifying and Separating Lease Components in a Contract

What does this mean?

- Consideration in the contract must be allocated to each identified lease component

What's new?

- Multiple assets (e.g., a building and equipment, multiple buildings) in a lease arrangement are accounted for as separate lease components, if both"
  - The lessee can benefit from the asset on its own or together with other readily available resources
  - The right of use is neither highly dependent on, nor highly interrelated with, the right(s) to use other underlying assets in the contract

Identifying and Separating Non-lease Components in a Contract

- Many contacts contain a lease coupled with an agreement to purchase other good or services (non-lease components)
- Non-lease components are accounted for separately from the lease component in accordance with other U.S. GAAP
- As a practical expedient, lessees can make an accounting policy election (by class of underlying asset) to account for each separate lease component of a contract and its associated non-lease component(s) as a single lease component

Identifying and Separating Non-lease Components in a Contract

- Maintenance activities, including common area maintenance, and other services provided to the lessee (e.g., utilities, waste removal) are non-lease components

- Reimbursements of lessor costs for insurance and real estate taxes that relate to the leased asset are generally variable lease payments

- Activities that do not transfer a good or service to the lessee (e.g., administrative activities, lessor cost reimbursements) are not components in the contract – These activities do not receive an allocation of consideration in the contract

Separating Lease and Non-Components: Reagent Agreements

- Arrangements for consumables (e.g., reagents) may include embedded equipment leases

- Diversity in practice exists today in how health care entities account for lease components in these arrangements

- Healthcare organizations will need to evaluate whether the consideration in these arrangements includes fixed and/or variable lease payments

Lease Disclosures and Presentation Matters

Lessee Disclosures

- Description of lease arrangements
- Amount of lease assets recognized
- Amount of each finance, operating, shorter-term lease costs
- Schedule of future lease payments to be made (separately for finance and operating lease liabilities)

Lessee Presentation - In the balance sheet or the disclosed in the notes:

- Finance lease right of use assets and operating lease right of use assets separately from each other and from other assets

- Finance lease liabilities and operating lease liabilities separately from each other and from other liabilities

Lessor Disclosures

- Description of lease arrangements
- Amount of revenue recognized from leases

What is Changing From a Lessor Perspective?

- Very little……

- The accounting applied by a lessor will largely be unchanged from that applied under today's GAAP for the most common healthcare organization lessor scenarios

ASC 840's Lessor Guidance

↓

ASC 842's Lessor Guidance

Lessor Accounting Overview

	Balance Sheet	Income Statement	Cash Flow Statement
Finance	Net investment in the lease	Interest income and any profit on the lease	Cash received for lease payments
Operating	Continue to recognize underlying asset	Lease income, typically on a straight-line basis	Cash received for lease payments

New lessor election for lease and nonlease components

- Lessors can elect to **NOT** separate the nonlease components from the associated lease component

- Lessor can make this election if:
  - The timing and pattern of transfer of the nonlease component(s) and the associated lease component are the same, **AND**
  - The lease component is classified as an operating lease on a stand-alone basis

- Accounting depends on predominance feature
  - Nonlease component predominant- revenue recognition guidance (ASC 606)
  - Lease component predominant- leases guidance (ASC 842_

Implementation Next Steps

1

Inventory all exiting lease contracts

- Completeness
- Aggregate similar leases to avoid redundant analyses
- Identify short term leases that will not be capitalized

2

Assess implementation challenges and options

- Existence of substantive substitution rights
- Choice of discount rate
- Determination of lease term
- "Practical expedients"

3

Estimate impact implementation will have on financial statements, internal controls, key ratios and metrics

- Evaluate impact changes will have on other contracts, e.g., loan covenants, management compensation
- If necessary develop plan to mitigate impact on other contracts

ASU 2017-01 Clarifying the Definition of a Business

Overview:

- Clarify the definition of a business in ASC 805 in response that the definition of a business is being applied too broadly
- Provides a framework that gives entities a basis for making reasonable judgements about whether a transaction involves an asset acquisition or business combination
- Provides clarification for determining when a transaction is not a business
- This clarification will reduce the number of transactions that an entity must further evaluation to determine whether they are business combinations or asset acquisitions

Effective dates:

- Effective for years beginning after December 15, 2017 (**effectively December 31, 2018**) for public business entities and for years beginning after December 15, 2018 (**effectively December 31, 2019**) for all other entities
- Early adoption is permitted

ASU 2017-01 Clarifying the Definition of a Business

Significance of the Standard- Asset Acquisition vs. Business Combination

	Asset Acquisition	Business Combination
Acquirer's transaction costs	Capitalized	Expensed
Purchase of assets	Assets acquired are recognized at price	Assets acquired are recognized at fair value
Potential for goodwill be recognized	No	Yes

Disclosure Framework—Fair Value Measurement (ASU 2018-13)

Effective dates- same for public and private

- All fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2019 (**effectively December 31, 2020**)
- Permitted to early adopt any eliminated or amended disclosures upon issuance and delay the adoption of additional disclosures until the effective date

Transition

- **Prospective for:**
  - Changes in unrealized gain and losses
  - Range and weighted average of significant unobservable inputs
  - Narrative description of measurement uncertainty
- **Retrospective for all other amendments**

Disclosure Framework—Fair Value Measurement (ASU 2018-13)

Removals:

- Amount of and reasons for transfers between Level 1 and Level 2
- Policy for timing of transfers between levels
- Valuation processes for Level 3
- **Nonpublic Entities Only**: Unrealized gains and losses in earnings for Level 3 held at period end

Additions (public entities only)

- Unrealized gains and losses in other comprehensive income for Level 3 held at period end
- Range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements

Modifications

- Net asset value disclosure
- Measurement uncertainty disclosure
- **Nonpublic Entities Only:** Transfers, purchases and issues into or out of Level 3 in lieu of a rollfoward

Disclosure Framework—Defined Benefit Plans (ASU 2018-14)

Removed:

- Next 12 months accumulated other comprehensive income
- **Rollforward Level 3 assets for nonpublic entities**
- **Effect of 1 percent change in health care trend rates (previously required for public entities only)**
- **Various other narrow disclosures**

Added:

- Interest crediting rate for cash plans
- **Reasons for significant gains or losses**

Considered but NOT part of Final Update:

- Add net asset value disclosures
- **Remove accumulated benefit obligation**

Disclosure Framework—Defined Benefit Plans (ASU 2018-14)

Effective dates- same for public and private

- All fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2019
- Permitted to early adopt any eliminated or amended disclosures upon issuance and delay the adoption of additional disclosures until the effective date

Transition

- \- **Retrospective**

ASU 2016-18 Restricted Cash

Overview:

- Requires cash flow statement include changes in “restricted cash and cash equivalents”
- “Restricted cash and cash equivalents” to be included when reconciling beginning of period and end of period cash and equivalents; includes restricted cash that may be included in assets whose is limited

Effective dates:

- Effective for years beginning after December 15, 2017 for public business entities
- Effective for years beginning after December 15, 2018 for all other entities
- Early adoption is permitted
- Retrospective application

ASU 2016-18 Restricted Cash

Balance Sheet		
	2018	2017
Current assets		
Cash and cash equivalents	$ 5,000	$ 8,000
Noncurrent asset		
Assets whose use is limited:		
Held by bond trustee	22,000	2,000
Board-designated for PPE	15,000	10,000
Total	$42,000	$20,000
Liabilities and Net Assets		
Bonds payable	$22,000	
Net assets	20,000	20,000
Total	$42,000	$20,000

ASU 2016-18 Restricted Cash

Statement of Cash Flows	
Operating Activities	
Investing Activities	
Financing Activities	
Proceeds from issuance of bonds	22,000
Net cash provided by financing	22,000
Net increase in cash, cash equivalents and restricted cash	$22,000
Cash, cash equivalents, and restricted cash, beginning	$20,000
Cash, cash equivalents, and restricted cash, ending	42, 000

ASU 2016-18 Restricted Cash Reconciliation and Nature of Restrictions

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheet that sums to amounts shown in the statement of cash flows.

	2018	2017
Cash and cash equivalents	$ 5,000	$ 8,000
Restricted cash include in assets whose use is limited	37,000	$12,000
Total cash, cash equivalents & restricted cash sown in the cash flows	$42,000	$20,000

Amounts included in restricted cash represent $22,000 in tax-exempt bond proceeds deposited with a trustee that will be used to pay for construction along with $15,000 of other funds that have been board-designated for future property and equipment purchases.

ASU 2017-04 Goodwill Impairment

Overview:

- Simplifies the accounting for goodwill impairments by eliminating Step 2 from the goodwill impairment test
- If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting until

Effective dates:

- Effective for years beginning after December 15, 2020 for public business entities and for years beginning after December 15, 2021 for all other entities
- Early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017

ASU 2017-07 Presenting Impact of Pension Costs

Overview:

- Requires employers to report the service cost component of net benefit cost in the same financial statement line item as the salary costs

- The other components of net benefit cost must be separated from the service cost component and excluded from the income from operations total

Effective dates:

- Effective for years beginning after December 15, 2017 for public business entities and for years beginning after December 15, 2018 for all other entities

- Early adoption permitted

Other Finalized Accounting Standards

- Revenue Recognition (CY 2018/FY 2019 or CY 2019/FY 2020)
- Revenue Recognition of Grants and Contracts by Not-for-Profit Entities
- Financial Instruments-Classification and Measurement Amendments (CY 2018/FY 2019 or CY 2019/FY 2020)
- Clarifying Certain Cash Receipts and Cash Payments (CY 2018/FY 2019 or CY 2019/FY 2020)
- Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract (CY 2021/FY 2022 or CY 2022/FY 2023)
- Collaborative Arrangements (CY 2021/FY 2022 or CY 2022/FY 2023)

Pending Accounting Standards

STRONGER
together

Balance Sheet Classification of Debt – Key Changes

Classification Principle	Debt would be classified as noncurrent if either of the following criteria are met as of the balance sheet date? - Liability is contractually due to be settled more than one year after the balance sheet date - Entity has contractual right to defer settlement of liability for at least one year after the balance sheet date
Waivers of Debt Covenant Violations	The amendments would continue to require an entity to classify debt as noncurrent when there has been a debt covenant violation if the entity receives waiver a waiver that meets certain conditions before the financial statements are issued
Separate Line Item Presentation	The amendments would require separate presentation in a classified balance sheet for debt that is classified as noncurrent because of a waiver of a debt covenant violation obtained after the balance sheet date
Refinancing After the Balance Sheet Date	The amendments would prohibit an entity from considering a subsequent refinancing when determining the classification of debt as of the balance sheet date
Refinancing After the Balance Sheet Date	The amendments would prohibit an entity from considering a subsequent refinancing when determining the classification of debt as of the balance sheet date

Unused lines of credit generally not considered, but Board is still discussing VRDOs (and contractual linkage)

Balance Sheet Classification of Debt – Key Changes

Expected to be issued in first quarter of 2019

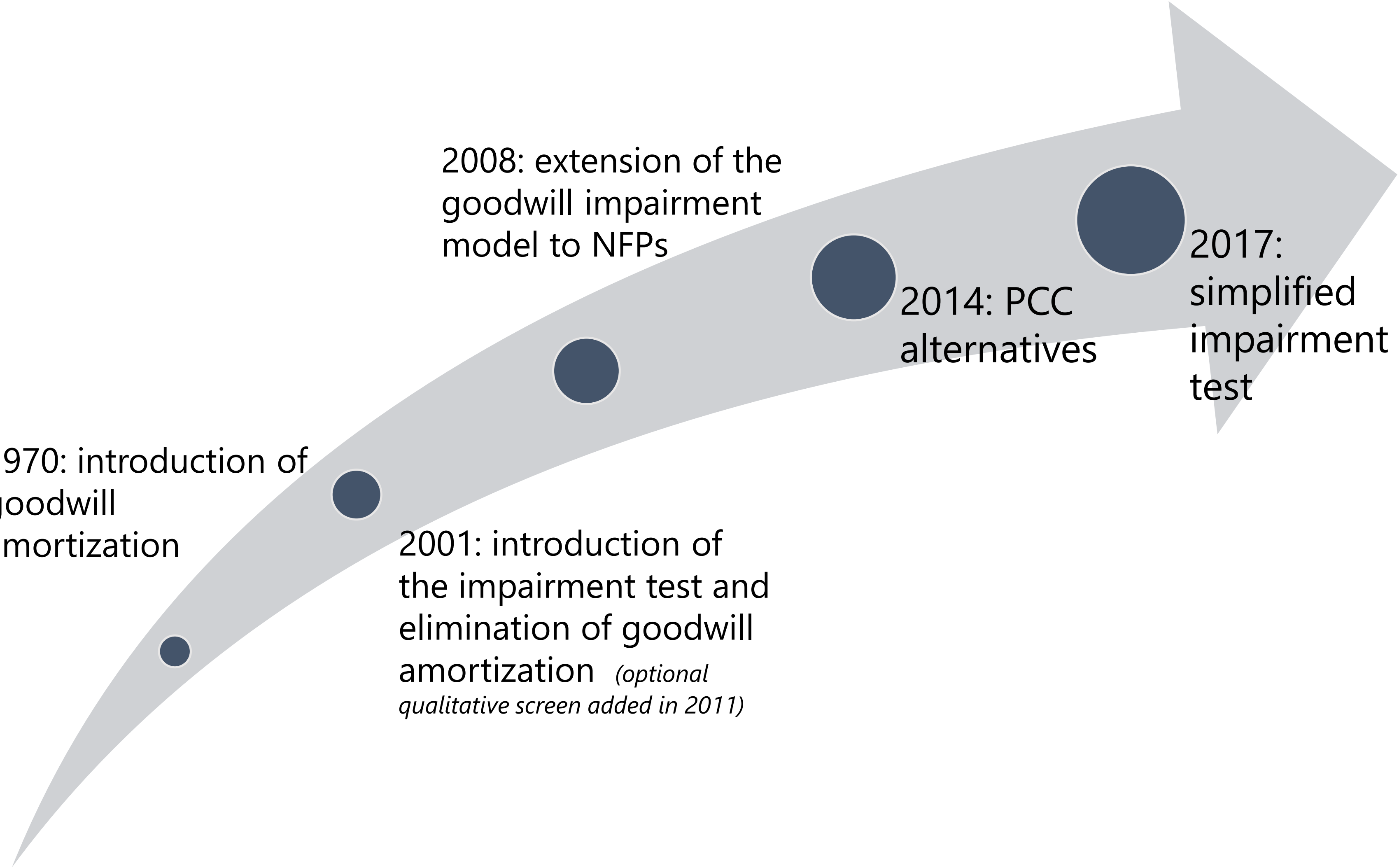
Effective Dates:

- Public Business entities – CY 2021 (FY 2021-22)
- Private Companies and NFPs – CY 2022 (FY 2022-23); one year later for interims

Prospective application

Early adoption permitted

History of Goodwill Accounting



Goodwill and Intangible Assets

Relevant Accounting Standard Updates

Accounting Standards Update No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*

- Added an optional qualitative test to the impairment test for all entities

Accounting Standards Update No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill* (Private company alternative)

- Amortize goodwill over 10 years or less
- Test for impairment upon a triggering event
- Test for impairment at the entity or reporting unit level

Accounting Standards Update No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination* (Private company alternative)

- Subsume certain customer-related intangible assets and all non-compete agreements into goodwill and amortize

Accounting Standards Update No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*

- Eliminated Step 2 of the impairment test for all entities

Tentative Board Decisions (on 10/24/18)

- To add a project to technical agenda for NFPs and draft an Exposure Draft (ED)
    - Extend the Private Company Accounting Alternative as a package
    - ED expected to be issued around year-end, for 60-day comment period

- To add a project to the technical agenda and draft an Invitation to Comment (ITC)
    - Scope and Optionality
    - Goodwill amortization period
    - Impairment testing upon a triggering event (rather than annually) and at an entity level (alternative to reporting unit)
    - Subsuming certain identifiable intangible assets into goodwill and amortizing
    - Potential double-step transition for NFPs and PCs
    - ITC expected to be issued in 1H 2019; comment period TBD

Q&A

Thank you

Dawn Stark
Partner, Healthcare industry technical leader
614-222-9066
Dawn.Stark@plantemoran.com

Brian Ulliman
Associate, Healthcare industry
614-222-9117
Brian.Ulliman@plantemoran.com