



plante moran | Audit. Tax. Consulting.
Wealth Management.



FASB Update: The non-boring look into new/upcoming accounting changes

Josh Richards, CPA | January 25, 2019 | Great Lakes Chapter



About Me: Formal



Josh Richards, CPA

Josh Richards is a Senior Manager within the healthcare practice at Plante Moran. He has over a decade of healthcare public accounting experience. He spends 100 percent of his time serving freestanding hospitals, multi-facility health systems, and senior living clients. In this role, Josh is responsible for the overall planning, budgeting, and supervising of assurance engagement teams. He also has experience performing audits of governmental healthcare clients and performing single audits. In addition to overseeing assurance engagements, Josh spends a significant amount of time assisting healthcare clients with reimbursement consulting, due diligence, and capital-related projects (feasibility and debt capacity). In addition, Josh helps to develop the audit approach and guidance provided to clients and prospects related to new accounting standard changes, including the new revenue recognition and leasing standards. Josh speaks to clients and organizations on new healthcare accounting developments, bringing a fresh perspective to those topics. Josh is a current board member of the Eastern Michigan Chapter of the Healthcare Financial Management Association (HFMA), and is a member of the AICPA and the MICPA. Josh hold a B.S. (Cum Laude) from Central Michigan University.



About Me: Informal



plante moran

audit • tax • consulting • wealth management



About Me: Healthcare Gladiator





About Me: Things I Like





What is going on.

Breaking down the new standards.



Why am I here and how am I going to make your life better



Revenue Recognition



Pension Benefits



Lease Accounting



NFP reporting



Case Study Introduction



Net Assets



Break It Down



What do you need to do now:

- Select your application method
- Draft policies
- Perform analysis on current contractual and bad debt allowance models
- Consider implications on financial statement footnotes



Break It Down

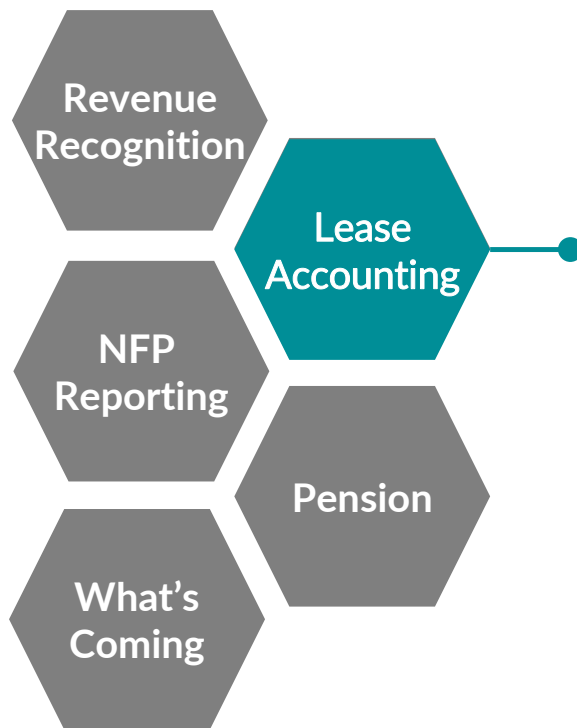


Disclosures, Disclosures, Disclosures....

- 10Q's – great source of example disclosures
- AICPA Revenue Recognition Guide – Chapter 7 for Healthcare entities
- Principles based – think like governance
- Don't underestimate the time needed (ie-data aggregation)



Break It Down



This is going to be a bigger process than you think

- Population completeness?
- Embedded leases
- Time
- Draft policies
- Practical expedients
- Related party considerations
- Sale Lease-Back transactions



Case Study – New Lease Standards



Health System Profile

600+ total beds

4+ primary and specialty facilities

4,100+ physicians, nurses & staff

55K+ ED visits annually

\$575M+ annual budget



Defining the Challenge



How can we quantify the population (inventory of current and potential leases)



How do we accumulate the disclosure information



How do we record the entries required



What is the impact of the new standard



The Steps Performed



How can we quantify the population (inventory of current and potential leases)

Interview folks.....lots of folks (we interviewed 35 over two days)

Ask the right questions

Embedded leases



The Steps Performed



How do we accumulate the disclosure information

Get all your data in an organized manner

Will likely require consultation with vendors for additional information

Need to understand terms



The Steps Performed



How do we record the entries required

Use Tools....

Pull data from contracts/vendors



The Steps Performed



What is the impact of the new standard

Aggregate the data by type of lease

Implementation method

Practical expedients, anyone?



What we uncovered



General awareness of data needed to comply with the standard



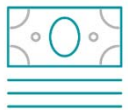
Over 30 Embedded leases



\$1.6M in total net embedded leases (including \$700K of embedded financing leases)



\$10.6M in total net operating leases to be added to the balance sheet



Passed entry for split between lease component and supply expense component for embedded leases



Break It Down



- **Net Assets – No temp or perm**

- With donor restriction or without

Can use direct or indirect method

- No longer requires reconciliation

Liquidity

- Quantitative disclosures

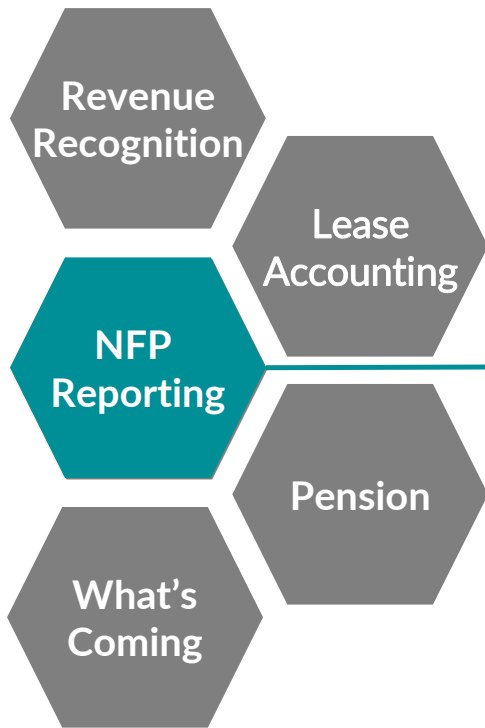


NFP Reporting – Liquidity Disclosure Example

The Organization has \$XXX of financial assets available within 1 year of the statement of financial position date to meet cash needs for general expenditure consisting of cash of \$YYY, contributions of \$ZZZ, and short-term investments of \$WWW. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The contributions receivable are subject to implied time restrictions but are expected to be collected within one year. The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet VV days of normal operating expenses, which are, on average approximately \$XXX. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Organization invests cash in excess of daily requirements in various short-term investments, including certificate of deposits and short-term treasury investments. As more fully described in Note XX, the Organization also has committed lines of credit in the amount of \$XXX, which it could draw upon in the event of an unanticipated liquidity need.



Break It Down



• Functional expense changes

- Disaggregation by natural classification – no more:

	<u>2018</u>	<u>2017</u>
Healthcare services	\$ 102,505,500	\$ 99,843,521
General and administrative	<u>26,487,452</u>	<u>24,351,401</u>
Total	<u><u>\$ 128,992,952</u></u>	<u><u>\$ 124,194,922</u></u>



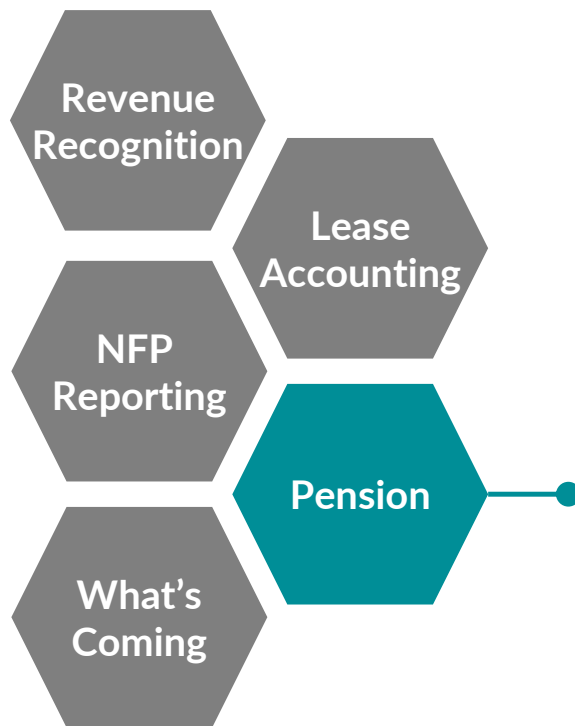
NFP Reporting – Functional Expense Disclosure Example

	Health Care Services						Support Services		Total
	Acute	Ambulatory	Physician	Post Acute	Health Plan	Research	MG&A	Fundraising	
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

	Health Care Services			Support Services		Total
	North Region	Central Region	South Region	MG&A	Fundraising	
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



Break It Down

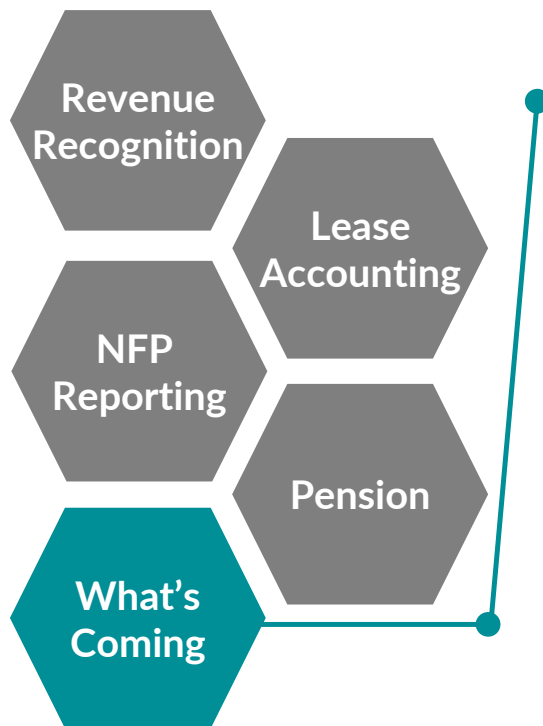


ASU 2017-07, Compensation - Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Costs and Net Periodic Postretirement Benefit Cost.

- Service cost components – same as other compensation costs
- The other components – down in non-operating
- Application method
- Practical expedient
- Effective Date(s)



Break It Down



Balance Sheet Classification of Debt

- Classification Principle
- Waiver of Debt Covenant Violations
- Separate Line Item Presentation
- Refinancing After the Balance Sheet Date

Goodwill

- Amortization
- Impairment Testing



The top 5 take-ways to remember.

1. Read the standard if you can. Alternatively, if you can find a reasonably authoritative summary – use that
2. Use your team/systems
3. Borrow disclosure examples
4. I like now coffee and Orangetheory
5. Principles based – will need to tailor and interpret the standard based on your own specific situation (which means there will be variability!)



Questions & Discussion

Josh Richards, CPA

Josh.Richards@plantemoran.com

248-223-3764