

Accounting Standards Update 2016-14 (ASU 2016-14), *Presentation of Financial Statements of Not-for-Profit Entities*

HEALTHCARE ENTITY CONSIDERATIONS

ISSUES ANALYSIS – LIQUIDITY AND AVAILABILITY

Background

Prior to the adoption of ASU 2016-14, unlike other NFP entities, healthcare not-for-profit entities are already required to show a classified statement of financial position. Additionally, many NFP healthcare entities have historically utilized assets limited to use categorization to disclose external and internal designation limitations on the use of such assets that would impact their liquidity and availability to meet current operating needs. To enhance transparency and usefulness of information in assessing an entity's liquidity, ASU 2016-14, among other provisions, required enhanced disclosures to require all NFP entities, including health care entities which currently present classified balance sheets, to report how the NFP manages its liquidity to meet short-term demands for cash and the effects, if any, of limits on resources imposed by a governing board, grantors, donors, lenders, contracts, etc. Under the new reporting model, an NFP's statement of financial position should sequence assets and liabilities based on their relative liquidity. Additionally, a NFP will be required to disclose the following:

- Qualitative information in the notes to financial statements that is useful in assessing an entity's liquidity and that communicates how it manages its liquid resources available to meet cash needs for general expenditures within one year of the date of the statement of financial position. "General expenditures" is not a defined term in ASU 2016-14, thus, a preparer could take the position that certain donor restrictions or assets otherwise limited to use are for purposes related to regular, ongoing operations (i.e. fixed asset purchases), and, therefore, such assets could be considered available for general expenditures. The qualitative disclosures should supplement the quantitative disclosure of such items to clearly convey the NFP's views as what is available for general expenditure.
- Quantitative information either on the face of the balance sheet/statement of financial position or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of a NFP's financial assets at the date of the statement of financial position to meet cash needs for general expenditures within one year of the date of the statement of financial position. Availability of a financial asset may be affected by: 1) its nature, 2) external limits imposed by lenders, contracts, etc., and 3) Internal limits imposed by governing boards.

The main objective in presenting this information is to achieve transparency and consistency, and flexibility in the standard gives the organization the opportunity to present the information in a way that best conveys the NFP's views on how it manages its financial assets available for general expenditure.

Issue

Although healthcare entities have historically disclosed more liquidity and availability information than other NFPs, ASU 2016-14 will require additional disclosures as outlined above. Below is an example liquidity and availability disclosure for a healthcare entity focusing on the expanded disclosures outlined in ASU 2016-14. This disclosure should not require a significant amount of additional time as most of the information should already be readily available.



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XYZ Hospital System
Balance Sheet
December 31, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$	70,322
Patient receivables, net of allowances for uncollectible		819,074
Investments for current use		144,838
Other current assets		<u>332,075</u>

Total current assets 1,366,309

Assets limited to Use:

Board Designated		2,950,076
Funds held by trustees		1,119,388
Assets held by captive insurance subsidiary		1,106,317
Donor-restricted assets		<u>1,474,227</u>

6,650,008

Property, plant, and equipment, net 3,599,607

Other assets:

Pledges receivable, net		161,757
Trusts and interests in foundations		122,498
Other noncurrent assets		<u>367,381</u>

651,636

Total assets \$ 12,267,560

XYZ Hospital System
Balance Sheet
December 31, 2016

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$	335,475
Compensation and amounts withheld from payroll		238,938
Current portion of long-term debt		55,778
Variable rate debt classified as current		386,875
Other current liabilities		<u>434,815</u>

Total current liabilities 1,451,881

Long-term debt:

Hospital revenue bonds		2,798,062
Notes payable and capital leases		<u>175,548</u>
		2,973,610

Other liabilities:

Professional and general liability insurance reserves		143,240
Accrued retirement benefits		452,897
Other noncurrent liabilities		<u>443,437</u>
		<u>1,039,574</u>

Total liabilities 5,465,065

Net assets:

Net Assets Without Donor Restriction		5,998,053
Net Assets With Donor Restriction		<u>804,442</u>

Total net assets 6,802,495

Total liabilities and net assets \$ 12,267,560

Notes to Financial Statements

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	<u>500,000</u>
	<u>\$ 2,734,234</u>

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.

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

1. Liquidity and Availability-Example 2

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.

XYZ Hospital System
Notes to Financial Statements

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	<u>122,498</u>
 Total financial assets	 <u>6,862,180</u>

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	<u>(122,498)</u>

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

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 for financial assets to meet general expenditures within one year. 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. However, the board-designated amounts could be made available, if necessary.

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