

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

HEALTHCARE ENTITY CONSIDERATIONS

ISSUES ANALYSIS – NET ASSET PRESENTATION

Background – Prior to the adoption of ASU 2016-14, healthcare not-for-profit entities were required to segregate disclosure between Temporary and Permanently Restricted Net Assets and from Unrestricted Net Assets. Temporary Restricted Net Assets were not handled consistently. 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 liquidity and availability to meet current operating needs. To enhance transparency and usefulness of information in assessing limitations on the use of an entities net assets, ASU 2016-14 removed the distinction between Temporary and Permanently Restricted Net Assets, required separate disclosure for internally designated Assets Limited as to Use from those with external limitations and clarified restricted and unrestricted criteria for Investments, Cash and Cash Equivalents.

Issues – The impact of ASU 2016-14 on healthcare not-for-profit entity reporting is discussed further below:

Donor Restrictions:

As a result of the new standard, the three existing classes of net assets (unrestricted, temporarily restricted, and permanently restricted) will now become two:

- Net assets without donor restrictions
- Net assets with donor restrictions

The ASU eliminates the separate presentation between net assets with temporary restrictions and net assets with permanent donor restrictions. Unconditional contributions under the ASU will be classified as “with donor restrictions” and “without donor restrictions”.

Assets Limited as to Use

Internally designated funds shall be reported separately from externally restricted funds either on the face of the balance sheet or in the notes to the financial statements. When internally designated funds are reported separately from externally restricted funds, if the form of the assets is not evident from the description on the balance sheet, the form of the assets shall be disclosed in the notes to the financial statements.

Cash and Cash Equivalents

Cash and claims to cash that meet any of the following conditions shall be reported separately and shall be excluded from current assets:



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- They are restricted as to withdrawal or use for other than current operations.
- They are designated for expenditure in the acquisition or construction of noncurrent assets.
- They are required to be segregated for the liquidation of long-term debts.
- They are required by a donor-imposed restriction that limits their use to long-term purposes.

For fiduciary purposes, separate checking or savings accounts may be maintained for donations with donor restrictions. However, unless required by the preceding guidance, such accounts are not reported on a line separate from other cash and cash equivalents (unless required under guidance in the paragraph above) because donor restrictions generally relate to limitations on the use of net assets rather than on the use of specific assets. A columnar presentation that highlights the two classes of net assets (that is, without donor restrictions and with donor restrictions) is not precluded if the totals for the reporting entity as a whole are displayed.

Example

Below is an example balance sheet illustrating revised disclosure under ASU 2016-14. Note that unlike many other not-for profit entities, healthcare not-for-profit entities have traditionally provided classified balance sheets and other business related disclosures. Also that:

- Terminology of “Unrestricted Net Assets” is changed to “Net Assets Without Donor Restrictions”.
- Not a feature affected by ASU 2016-14 but, this example includes reference to non-controlling interest by a joint venture partner. The relationships would be more fully described in notes to the financial statements.
- The Assets Limited as to Use in this example are managed by a trustee pursuant to tax exempt bond indenture and accordingly not restricted by donors. Assets designated by the Board of Directors, similarly may be classified as long term but should not be confused with donor restricted assets. If an entity has assets who’s use is restricted by donors, separate disclosure on the face of the balance sheets and in the footnotes should be provided.
- Release of donor restrictions shall be recognized upon the expiration of a donor-imposed restriction on a contribution in the period in which the restriction expires. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Elimination of the use of Temporary Restriction will effect timing for recognition of release where entities previously imputed a life based on underlying asset donations.

Consolidated Balance Sheets XXXX, 2016

\$ in X	<u>2016</u>
Assets	
Current assets:	690
Cash and cash equivalents	
Short term investments	104
Patient accounts receivable, net of allowance for doubtful accounts of \$xxxx	0 560
Other receivables	93
Inventories	50
Prepaid expenses and other	36
Total current assets	1533
Investments	132
Investments in affiliate managed pools	1316
Assets limited as to use, held by trustee	236

Property and equipment, net	2402
Other assets	138
Total assets	<u>5757</u>
Liabilities and Net Assets	
Current liabilities:	
Accounts payable and accrued liabilities	336
Accrued salaries and related benefits	237
Due to related parties	61
Third-party payor settlements	23
Current portion of long-term debt	14
Debt subject to short-term remarketing arrangements	228
Self-insurance reserves and other	43
Total current liabilities	<u>942</u>
Self-insurance reserves and other, net of current portion	119
Other long-term liabilities	356
Pension liability	65
Long-term debt, net of current portion	1221
Total liabilities	<u>2703</u>
Net assets:	
Community Health Care	2449
Non-controlling interests	20
Net Assets without Donor Restriction	<u>2469</u>
Net Assets with Donor Restriction	585
Total net assets	<u>3054</u>
Total liabilities and net assets	<u>5757</u>

Investments – Debt and Equity Securities

Change in description consistent with the foregoing sections: Investment return (including realized and unrealized gains and losses) not restricted by donors or by law should be classified as changes in “net assets without donor restrictions”. Note that investment revenues shall be reported net of related expenses such as custodial fees and investment advisory costs, provided that the amount of the expenses is disclosed either on the face of the statement of activities or in the notes to financial statements. Entities must report investment return net of expenses in both donor-restricted and without donor restrictions categories. Further, the netted investment expenses should not be included in the analysis of expenses by nature and function.

Entities are permitted to disaggregate the amount of net investment return from portfolios that are managed differently or derived from different sources into separate lines, as long as those lines are appropriately captioned. For example, an entity with an endowment may present the amounts of net investment return appropriated for spending separate from net investment return in excess of amounts appropriated for spending.

For business-oriented health care NFPs [ASC 954] that hold portfolios of marketable securities classified as “available for sale”, a portion of the investment return is reported in other comprehensive income after the performance indicator. ASC 954-225-55-6 provides the following alternative examples for segregating unrealized gains (losses) on other than trading securities excluded from the performance indicator:

Format 1: Year 1 Presentation of Net Investment Return

Revenue	\$ X,XXX
Expenses	<u>XXX</u>
Excess of revenues over expenses	<u>XXX</u>
Investment return, net	XXX
Less:	
Unrealized gains (losses) on other than trading debt securities excluded from performance indicator	<u>(200)</u>
Performance indicator	<u>XXX</u>
Add:	
Unrealized gains (losses) on other than trading debt securities excluded from performance indicator	<u>200</u>
Change in net assets without donor restrictions	<u><u>\$ XXX</u></u>

Format 2: Year 1 Presentation of Net Investment Return

Revenue	\$ X,XXX
Expenses	<u>XXX</u>
Excess of revenues over expenses	<u>XXX</u>
Investment return, net, excluding unrealized gains (losses) on debt	<u>XXX</u>
Performance indicator	<u>XXX</u>
Unrealized gains (losses) on other than trading debt securities excluded from performance indicator	<u>200</u>
Change in net assets without donor restrictions	<u><u>\$ XXX</u></u>