



Financial statement presentation – NFP healthcare entities

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Polling Question #1

How much knowledge do you have of healthcare financial reporting?

- A I don't know much about healthcare financial reporting.
- B I know the basics but haven't applied them in practice.
- C I know the basics and have a bit of experience with financial reporting in the workplace.
- D I actively work in healthcare financial reporting and have a lot of experience.

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Healthcare Financial Reporting

Internal Financial Reporting

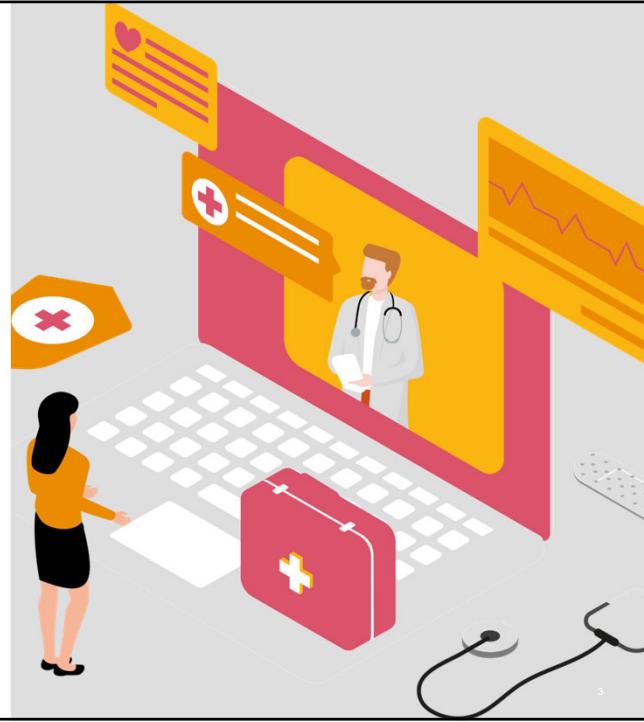
- Not a one size fits all approach
 - Monthly Financial Reporting
 - Annual Financial Statements
 - Other Reporting

Basics

- Statement of Financial Position (the Balance Sheet)
- Statement of Operations (the Income Statement or Profit & Loss)
- Statement of Changes in Net Assets
- Statement of Cash Flows

Best Practices

- Key financial and operating indicators
- Statistics by department reflecting the levels of activity
 - (Actual vs. Budget / PY)
- Additional reporting
 - 12 month rolling trend (BS, SOO & SCF)
 - Narrative (The Story Behind The Numbers)



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Financial statement presentation

Report of Independent Auditors.....
Consolidated Financial Statements
Consolidated Balance Sheets
Consolidated Statements of Operations and Changes in Net Assets
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

Overall financial statement presentation

Financial statements presented

- NFP healthcare entities normally present four statements:
 - Balance sheet
 - Statement of operations
 - Statement of changes in net assets
 - Statement of cash flows
- Other than the statement of cash flows, the titles of these statements are not dictated by GAAP.
 - For example, the balance sheet could also be titled statement of financial position.
 - The statement of operations and statement of changes in net assets may be combined into a single statement.
 - If this single statement is presented across two pages, it must be clear that the second page is a continuation of the first page.
- Notes to the financial statements are required.

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Financial statement presentation

Consolidated Balance Sheets (in 000's)	
As of December 31, 2020 and 2019	
Assets	
Current assets	
Cash and cash equivalents	
Patient accounts receivable	
Estimated third-party payor settlements receivable	
Inventories	
Other accounts receivable	
Other current assets	
Total current assets	
Assets limited as to use	
Board-designated funds	
Reinsurance trust assets	
Property, plant and equipment, net	
Investments in unconsolidated affiliates	
Capitalized software, net	
Right of use operating assets	
Other assets	
Total assets	



Overall financial statement presentation

Comparative financial statements

- Although GAAP acknowledges that comparative financial statements are often helpful to users, GAAP does not require presentation of comparative financial statements.
 - Before changing to single-period presentation, entities should consider contractual requirements to present comparative financial statements (such as debt agreements, bond indentures, etc.).
- Although rare among NFP healthcare entities, prior year financial statements may be summarized.
 - If summarized, the statements are not presented in accordance with GAAP.
 - The title of the statements must be modified to indicate that some of the information is summarized.
 - The auditor's report is modified to exclude any information labeled as summarized.

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Financial statement presentation

Consolidated Balance Sheets (in 000's)	
As of December 31, 2020 and 2019	
Assets	
Current assets	
Cash and cash equivalents	
Patient accounts receivable	
Estimated third-party payor settlements receivable	
Inventories	
Other accounts receivable	
Other current assets	
Total current assets	
Assets limited as to use	
Board-designated funds	
Reinsurance trust assets	
Property, plant and equipment, net	
Investments in unconsolidated affiliates	
Capitalized software, net	
Right of use operating assets	
Other assets	
Total assets	



Overall financial statement presentation

Financial statement line items

- Assets and liabilities with similar characteristics should be aggregated into reasonably homogenous groups.
- NFP healthcare entities are not subject to quantitative thresholds for disaggregation of financial statement line items.
- GAAP may require certain balances to be presented separately, either on the face of the financial statements, or in the notes.
 - For example, GAAP requires that right-of-use assets for operating and finance leases be separately presented on the face or in the notes, but prohibits combining operating and finance right-of-use assets on the face.
 - Such guidance is subject to materiality considerations.

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Balance Sheet

Health System, Inc. Consolidated Balance Sheet		September 30, 202X	Health System, Inc. Consolidated Balance Sheet	September 30, 202X						
Assets			Liabilities and Net Assets							
Current Assets:			Current Liabilities:							
Cash and cash equivalents	\$ 7,106,045		Accounts payable and accrued expenses	\$ 11,143,264						
Investments, at fair value	2,257,437		Accrued employee compensation and benefits	9,429,226						
Patient accounts receivable, net	16,203,313		Current portion of long-term debt	817,232						
Grants receivable, net	564,170		Current portion of operating lease liabilities	368,682						
Prepaid expenses and other current assets	2,674,368		Unexpended funds on research grants	540,476						
Total Current Assets	28,805,333		Estimated settlements with third-party payors	4,382,528						
			Total Current Liabilities	26,681,408						
Other Assets:			Other Liabilities:							
Long-term investments	30,271,539		Long-term debt	39,758,386						
Property and equipment, net	77,381,894		Operating lease liabilities, net of current portion	3,054,327						
Right-of-use operating lease assets	2,502,354		Accrued malpractice liabilities	2,058,756						
Other assets	11,439,300		Accrued pension liabilities	2,453,521						
Total Non-Current Assets	121,595,087		Estimated settlements with third-party payors	1,238,374						
			Accrued other	4,583,290						
Total Assets	\$ 150,400,420		Total Non-Current Liabilities	53,146,654						
Balance Sheet Key Items										
<ul style="list-style-type: none"> • Total Cash/Investments Position • Cash Runway • Working Capital/Current Ratio • Debt to Equity • Net Assets Without Restrictions (previously called Unrestricted Net Assets) 										
Net Assets:										
<table border="1"> <tr> <td>Without donor restrictions</td> <td>63,972,456</td> </tr> <tr> <td>With donor restrictions</td> <td>6,599,902</td> </tr> <tr> <td>Total Net Assets</td> <td>70,572,358</td> </tr> </table>					Without donor restrictions	63,972,456	With donor restrictions	6,599,902	Total Net Assets	70,572,358
Without donor restrictions	63,972,456									
With donor restrictions	6,599,902									
Total Net Assets	70,572,358									
Total Liabilities and Net Assets										
\$ 150,400,420										

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Financial statement presentation

Consolidated Balance Sheets (in 000's) As of December 31, 2020 and 2019		Balance sheet
Assets		Classification
Current assets		→ NFP healthcare entities (except for continuing care retirement communities) are required to classify assets and liabilities as current and noncurrent.
Cash and cash equivalents		– This requirement is unique to NFP healthcare entities; other NFPs are permitted, but not required, to classify their balance sheet.
Patient accounts receivable		• Normally, an operating cycle of 12 months is used to distinguish current and noncurrent.
Estimated third-party payor settlements receivable		• NFP healthcare entities often sequence assets and liabilities within each balance sheet section in order of liquidity (i.e., within current assets, cash precedes accounts receivable); however, this is not required in a classified balance sheet.
Inventories		• Liquid assets that are subject to limitations on use that override their natural liquidity should be reported as noncurrent assets. Limitations may arise from:
Other accounts receivable		– Contracts, Debt agreements, Donors, Board designations
Other current assets		• For example, funds designated by the governing board to acquire noncurrent assets must be classified as noncurrent.
Total current assets		• NFP healthcare entities are required to present internally designated funds separately from externally restricted funds either on the face of the balance sheet or in the notes. These funds are typically referred to as assets limited as to use.
Assets limited as to use		
Board-designated funds		
Reinsurance trust assets		
Property, plant and equipment, net		
Investments in unconsolidated affiliates		
Capitalized software, net		
Right of use operating assets		
Other assets		
Total assets		

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Financial statement presentation

Assets	
Current assets	
Cash and cash equivalents	
Patient accounts receivable	
Estimated third-party payor settlements receivable	
Inventories	
Other accounts receivable	
Other current assets	
Total current assets	
Assets limited as to use	
Board-designated funds	
Reinsurance trust assets	
Property, plant and equipment, net	
Investments in unconsolidated affiliates	
Capitalized software, net	
Right of use operating assets	
Other assets	
Total assets	
Liabilities and net assets	
Current liabilities	
Current portion of long-term debt	
Accounts payable	
Accrued salaries and wages	
Estimated third-party payor settlements payable	
Self-insured liabilities	
Lease liabilities	
Other current liabilities	
Total current liabilities	



Balance sheet

Classification, continued

- Special classification considerations may apply to certain types of debt.
 - For example, NFP healthcare entities often issue variable-rate demand obligations (VRDOs) that allow holders to 'put' the debt back to the obligor.
 - If the obligor does not have standby bond purchase agreements (or similar financing arrangements), the VRDOs may have to be classified as current.

Offsetting

- Balance sheet offsetting is permitted when a right of setoff exists and all the following criteria are met:
 - Each of two parties owes the other determinable amounts.
 - The reporting party has the right to set off the amount owed with the amount owed by the other party.
 - The reporting party intends to set off.
 - The right of setoff is enforceable at law.
- GAAP specifically prohibits offsetting for certain activities and transactions (e.g., insurance recoveries may not be netted with insurance liabilities).

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Financial statement presentation

Net assets	
Net assets without donor restrictions	
Network net assets without donor restrictions	
Noncontrolling interest	
Total net assets without donor restrictions	
Net assets with donor restrictions	
Total net assets	



Balance sheet

Net asset presentation

- NFPs must distinguish between net assets without donor restrictions and with donor restrictions.
 - The wording of these line items is not dictated by GAAP, however, NFPs should refrain from using terminology that existed prior to issuance of ASU 2016-14 (i.e., unrestricted, temporarily restricted and permanently restricted).
- NFPs must present the total of each net asset class and total net assets on the face of the balance sheet.
- GAAP requires NFPs to provide further detail about each net asset classification, either on the face of the balance sheet or in the notes.
 - For example, if net assets without donor restrictions contain board-designated funds, the nature of those board designations must be presented on the face or in the notes.
 - NFP healthcare entities normally present this information in the notes.
- Underwater endowment funds are presented as part of net assets with donor restrictions.
- NFPs have special guidance for presentation of noncontrolling interests (NCI).
 - NCI must be presented as a separate line item (if material) prior to a subtotal of the net asset classification.
 - Although uncommon, NCI subject to donor restrictions must be presented separately from NCI not subject to donor restrictions.

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Common Issues - Balance Sheet

- Inappropriate netting of assets and liabilities
- Improper classification of current and noncurrent
- Inappropriate combination of FSLIs explicitly prohibited by GAAP (e.g., Right of Use Assets)
- Lack of disclosures over restrictions of assets (internal and external)
- Inappropriate combination of net assets attributable to NCI and net assets attributable to the organization



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Statement of Operations

Health System, Inc. Consolidated Statements of Operations	
Years ended September 30,	202X
Statement of Operations Key Items	
• Comparison to budget and understanding differences	
• Annual budgetary process	
Revenue and Other Support:	
Net patient service revenue	165,568,558
Research revenue	11,822,910
Other revenue	709,459
<u>Total operating revenues</u>	<u>178,100,927</u>
Expenses:	
Salaries and wages	100,984,801
Supplies and other expenses	51,277,970
Research expenses	11,822,910
Depreciation and amortization expense	9,672,737
Interest expense	2,840,293
<u>Total operating expenses</u>	<u>176,598,711</u>
<u>Income from operations</u>	<u>1,502,216</u>
Non-operating Income, Gains and (Losses)	
Unrealized gains and losses on investments	517,226
Interest and dividends	17,618
Contribution revenue	50,016
Other nonoperating income	168,942
<u>Total nonoperating gains, net</u>	<u>753,802</u>
<u>Excess of revenues over expenses</u>	<u>2,256,018</u>
Net assets released from restriction used for purchases of Property and Equipment	680,285
Cumulative effect of accounting change	(542,808)
<u>Increase in Net Assets without Donor Restrictions</u>	<u>2,393,495</u>

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Traditional Operating Model/ Revenue Drivers



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Financial statement presentation

Revenues:
Patient service revenue
Service fee revenue
Other revenue
Cares Act provider relief funding
Earnings from unconsolidated affiliates
Total operating revenues
Operating expenses
Salaries, benefits and pension
Supply expenses
Other expenses
Depreciation and amortization
Interest and financing costs
Total operating expenses
Income from operations
Excess of net assets acquired in Fairbanks acquisition
Investment income and other, net
Loss on extinguishment of debt
Excess of revenues over expenses before income taxes
Provision for income taxes
Excess of revenues over expenses
Excess of expenses over revenues attributable to noncontrolling interest
Excess of revenues over expenses attributable to the Network



Statement of operations

Presentation

- NFP healthcare entities normally present a statement of operations separate from a statement of changes in net assets but are permitted to combine those statements.
- If combined and presented across two pages, use of the word 'continued' is required on the first page.
- If a separate statement of operations is presented, it must include a performance indicator and the change in net assets without donor restrictions.

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Financial statement presentation

Revenues:	
Patient service revenue	
Service fee revenue	
Other revenue	
Cares Act provider relief funding	
Earnings from unconsolidated affiliates	
Total operating revenues	
Operating expenses	
Salaries, benefits and pension	
Supply expenses	
Other expenses	
Depreciation and amortization	
Interest and financing costs	
Total operating expenses	
Income from operations	
Excess of net assets acquired in Fairbanks acquisition	
Investment income and other, net	
Loss on extinguishment of debt	
Excess of revenues over expenses before income taxes	
Provision for income taxes	
Excess of revenues over expenses	
Excess of expenses over revenues attributable to noncontrolling interest	
Excess of revenues over expenses attributable to the Network	



Statement of operations

Classification

- GAAP does not require NFP healthcare entities to present operating and nonoperating sections in the statement of operations. However, most NFP healthcare entities do so.
- GAAP generally does not dictate which activities are considered operating and nonoperating, with four exceptions:
 - An impairment loss recognized for a long-lived asset to be held and used must be an operating activity.
 - Costs associated with exit or disposal activity that does not involve a discontinued operation must be an operating activity.
 - A gain or loss recognized on the sale of a long-lived asset that is not a component of an entity that qualifies for discontinued operations treatment must be an operating activity.
 - Components of net periodic pension and postretirement benefit costs other than the service cost component must be a nonoperating activity.
- If not clear from the face, entities must provide note disclosure about how they define 'operations.'

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Financial statement presentation

Revenues:	
Patient service revenue	
Service fee revenue	
Other revenue	
Cares Act provider relief funding	
Earnings from unconsolidated affiliates	
Total operating revenues	
Operating expenses	
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Supply expenses	
Other expenses	
Depreciation and amortization	
Interest and financing costs	
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Excess of revenues over expenses attributable to the Network	



Statement of operations

Intermediate subtotals

- NFP healthcare entities may present intermediate subtotals to highlight certain activities or provide information deemed useful to financial statement users.

Performance indicator

- NFP healthcare entities are required to present a performance indicator. The measure is similar to income from continuing operations of a business entity.
 - The wording of the performance indicator line item is not dictated by GAAP but must be clearly identified using a descriptive caption.
 - The term 'net income' cannot be used because NFP healthcare entities present certain activities outside of the performance indicator that business entities would include in net income.

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Financial statement presentation

Revenues:
Patient service revenue
Service fee revenue
Other revenue
Cares Act provider relief funding
Earnings from unconsolidated affiliates
Total operating revenues
Operating expenses
Salaries, benefits and pension
Supply expenses
Other expenses
Depreciation and amortization
Interest and financing costs
Total operating expenses
Income from operations
Excess of net assets acquired in Fairbanks acquisition
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Excess of revenues over expenses
Excess of expenses over revenues attributable to noncontrolling interest
Excess of revenues over expenses attributable to the Network



Statement of operations

Performance indicator, continued

- Certain activities must be excluded from the performance indicator (i.e., presented after the performance indicator). Many of these activities are similar to items of other comprehensive income presented by business entities.
 - Transactions with owners acting in that capacity
 - Equity transfers
 - Contributions and net assets released from donor restrictions for long-lived assets
 - Unrealized gains and losses on 'other than trading' debt securities
 - Actuarial changes of pension and OPEB plans
 - Gains and losses on derivatives designated as cash flow hedging instruments
 - Foreign currency translation adjustments
 - Discontinued operations
 - Cumulative effect of changes in accounting principle (when required by newly issued FASB standards)
- GAAP requires note disclosure of the nature and composition of the performance indicator.

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Financial statement presentation

Revenues:
Patient service revenue
Service fee revenue
Other revenue
Cares Act provider relief funding
Earnings from unconsolidated affiliates
Total operating revenues
Operating expenses
Salaries, benefits and pension
Supply expenses
Other expenses
Depreciation and amortization
Interest and financing costs
Total operating expenses
Income from operations
Excess of net assets acquired in Fairbanks acquisition
Investment income and other, net
Loss on extinguishment of debt
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Excess of revenues over expenses
Excess of expenses over revenues attributable to noncontrolling interest
Excess of revenues over expenses attributable to the Network



Statement of operations

Revenue

- Major revenue streams with dissimilar characteristics may be presented in separate line items (e.g., fee-for-service patient service revenue is presented separately from premium revenue).
- NFP healthcare entities often present revenue line items that combine revenue streams subject to ASC 606 with revenue streams subject to other guidance (e.g., ASC 958-605 for nonexchange revenues, ASC 842 for lease activities).
 - GAAP requires separate presentation of revenues subject to ASC 606 on the face or in the notes.
 - NFP healthcare entities should evaluate whether 606 revenue streams included in 'other revenue' and similar line items are material for disclosure.
- Reclassifications of net assets (i.e., releases from restriction) are not considered revenues, expenses, gains, or losses.
- If material, reclassifications of net assets should be presented as separate line items.
- If a line item for reclassifications of net assets is included in the revenue section of the statement of operations, the section should be titled 'revenues and other support' or something similar.

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Financial statement presentation

Revenues:	
Patient service revenue	
Service fee revenue	
Other revenue	
Cares Act provider relief funding	
Earnings from unconsolidated affiliates	
Total operating revenues	
Operating expenses	
Salaries, benefits and pension	
Supply expenses	
Other expenses	
Depreciation and amortization	
Interest and financing costs	
Total operating expenses	
Income from operations	
Excess of net assets acquired in Fairbanks acquisition	
Investment income and other, net	
Loss on extinguishment of debt	
Excess of revenues over expenses before income taxes	
Provision for income taxes	
Excess of revenues over expenses	
Excess of expenses over revenues attributable to noncontrolling interest	
Excess of revenues over expenses attributable to the Network	



Statement of operations

Expense

- NFP healthcare entities may present expenses using natural, functional, or other classifications.
 - Most NFP healthcare entities use natural classifications.
- Regardless of presentation on the face, GAAP requires NFP healthcare entities to present an analysis of expenses by natural and functional classification.
 - This analysis could be provided on the face, but most NFP healthcare entities present it in the notes.

Investment income

- NFP healthcare entities are required to present investment return on a net basis.
 - However, investment return from distinct activities may be separately presented (e.g., net investment return from working capital may be presented separately from net investment return from long-term investments).

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Financial statement presentation

Revenues:	
Patient service revenue	
Service fee revenue	
Other revenue	
Cares Act provider relief funding	
Earnings from unconsolidated affiliates	
Total operating revenues	
Operating expenses	
Salaries, benefits and pension	
Supply expenses	
Other expenses	
Depreciation and amortization	
Interest and financing costs	
Total operating expenses	
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Provision for income taxes	
Excess of revenues over expenses	
Excess of expenses over revenues attributable to noncontrolling interest	
Excess of revenues over expenses attributable to the Network	



Statement of operations

Noncontrolling interests (NCI)

- Unlike business entities, NFP healthcare entities are not required to apportion earnings between the parent and the noncontrolling interests in the statement of operations.
- NFPs are instead required to disclose the apportionment in the footnotes.
- If an NFP does present NCI on the face, it may not be an adequate replacement of the information GAAP requires to be disclosed. Therefore, note disclosure may still be necessary.

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Common Issues - Statement of Operations

- Inappropriate inclusion/exclusion of items from the performance indicator
- Inappropriate combination of FSLIs (e.g., 606 revenue and non-606 revenue)
- Lack of consistency in applying operating vs. non-operating designations
- Only including operating expenses within the functional expense table
- Inappropriate treatment of unrealized/realized gains (losses) of investments based on trading/other-than-trading treatment.



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Polling Question #2

Which is an example of the performance indicator included on the Statement of Operations?



PwC

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Financial statement presentation

Change in net assets without donor restrictions	
Excess of revenues over expenses	
attributable to the Network	
Change in noncontrolling interest	
Other changes, net	
	Increase in total net assets without donor restrictions
Change in net assets with donor restrictions	
Increase in net assets with donor restrictions	
	Increase in total net assets
Total net assets, beginning of year	
Total net assets, end of year	



Statement of changes in net assets

Presentation

- The statement of changes in net assets normally begins with the performance indicator.
 - GAAP does not require the statement to begin with the performance indicator, however, this is common practice among NFP healthcare entities.
- When presented as a separate statement, the first section of the statement of changes in net assets (i.e., changes in net assets without donor restrictions) repeats the activity presented at the end of the statement of operations.

Required subtotals

- The statement of changes in net assets must present the following three subtotals:
 - Change in net assets without donor restrictions
 - Change in net assets with donor restriction
 - Total change in net assets

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Financial statement presentation

Change in net assets without donor restrictions	
Excess of revenues over expenses	
attributable to the Network	
Change in noncontrolling interest	
Other changes, net	
	Increase in total net assets without donor restrictions
Change in net assets with donor restrictions	
Increase in net assets with donor restrictions	
	Increase in total net assets
Total net assets, beginning of year	
Total net assets, end of year	



Statement of changes in net assets

Expenses

- Most expenses are reported within net assets without donor restrictions.
- The only expense that may be presented within net assets with donor restrictions is investment expenses that have been netted with restricted investment return.
 - Many NFP healthcare entities net all investment expenses against investment return in net assets without donor restrictions based on materiality.

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Statement of Cash Flows

Statement of Operations Key Items

- Need to understand where cash comes from and where it is going
- Should explain everything you spent cash on during the year
 - and the items that were accounting expenses, but no cash was exchanged for them

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Financial statement presentation

Cash flows from operating activities

Increase in net assets

Adjustments to reconcile increase in net assets to net cash provided by operating activities

Depreciation and amortization

Deferred tax benefit provision

Excess of net assets acquired in Fairbanks acquisition

Earnings from unconsolidated affiliates

Unrealized and realized gains on investments

Distributions received from unconsolidated affiliates

Loss on extinguishment of debt

Other

Changes in operating assets and liabilities

Patient accounts receivable

Other assets

Accounts payable

Estimated third-party payor settlements

Other liabilities

Net cash provided by operating activities



Statement of cash flows

Presentation

- NFPs present the statement of cash flows similar to business entities.
- The statement of cash flows is separated into three sections:
 - Operating
 - Investing
 - Financing
- GAAP allows both the direct and indirect method of presenting operating activities.
 - Most NFPs use the indirect method.
 - Unlike business entities, if an NFP uses the direct method, the NFP does not have to also present the indirect method.
- Noncash investing and financing activity must be presented either on the face or in the notes.

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Financial statement presentation

Net increase(decrease) in cash and cash equivalents
Cash and cash equivalents beginning of year
Cash and cash equivalents end of year



Statement of cash flows

Cash, cash equivalents and restricted cash

- Beginning and ending balances in the statement of cash flows must include all cash, cash equivalents, restricted cash, and restricted cash equivalents.
- GAAP allows entities to treat instruments that otherwise meet the definition of 'cash equivalents' as investments for purposes of the statement of cash flows.
 - If an entity elects to treat such instruments as investments rather than cash equivalents, those balances are excluded from beginning and ending cash, cash equivalents and restricted cash.
 - Entities should disclose their policy.
 - GAAP does not define 'restricted' cash and cash equivalents.

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Financial statement presentation

Cash flows from operating activities
Increase in net assets
Adjustments to reconcile increase in net assets to net cash provided by operating activities
Depreciation and amortization
Deferred tax benefit provision
Excess of net assets acquired in Fairbanks acquisition
Earnings from unconsolidated affiliates
Unrealized and realized gains on investments
Distributions received from unconsolidated affiliates
Loss on extinguishment of debt
Other
Changes in operating assets and liabilities
Patient accounts receivable
Other assets
Accounts payable
Estimated third-party payor settlements
Other liabilities
Net cash provided by operating activities



Statement of cash flows

Common NFP presentation matters

- NFPs generally follow the same guidance on classification and presentation of cash flows as business entities (e.g., determining whether distributions from equity method investees are returns of investment or returns on investment).
- The following cash flows are common among NFPs:
 - Contributions are presented as operating activities, unless restricted for long-term purposes, in which case they are financing activities.
 - Donated securities are noncash transactions but many NFPs have policies in place to immediately liquidate such securities. If an NFP has such a policy and the donated securities are converted nearly immediately to cash, GAAP requires the cash flows to be reported as operating activities unless the donation must be used for long-term purposes, in which case they are financing activities.

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Common Issues - Statement of Cash Flows

- Incorrect beginning and ending cash balances
- Exclusion of reconciliation cash flow balances to the cash and cash equivalents FSLI
- Inclusion of non-cash items within the investing and financing sections
- Lack of consideration of specific not-for-profit requirements
- Equity method distributions (return-on-investment vs. return-of-investment)
- Lack of disclosure over required non-cash transactions (e.g., cash paid for interest, leases)
- Inappropriate netting of cash inflows and outflows
 - Investment purchases and sales
 - Line of credit repayments



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Healthcare Financial Reporting

Best Practices

- Incorporate charts and graphs to display certain financial ratios, trends, operating results and financial position
- Issue financial statements within 20 working days of period end
- Financial statements should be self explanatory with verbal comments to educate the users as to specific issues and concerns related to report, operations and any specific action plans necessary based on the financial results
- Monthly financial package represents an ABRIDGED version of information that management maintains that should be distributed to the finance committee to keep trustees current as to the financial condition of the organization

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Healthcare Financial Reporting

Operational Reporting – Healthcare Entities

- Profit and Loss (P&L) – Overview of Revenue & Expenses
- Aged Accounts Receivable (A/R) – How long it takes bills to be paid in cash
- Charges, Payments, and Adjustments – Overview of what gross charges per treatment are, and what the company is collecting on those services
- Credit Balances – Summary of any refunds necessary
- Non-Contractual Adjustments – Monitor what adjustments are being made outside of contracts with payers
- CPT Code Frequency – Summary of how often each treatment code is being used to help identify possible inaccuracy in record keeping or billing
- Denials and Rejections – Review to help identify trends
- Unapplied Payments – Monitor to ensure payments are being applied timely and accurately

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Polling Question #3

What report can be used to identify how often a hospital is providing a specific healthcare treatment?

- A Credit balance report
- B Non contractual adjustments report
- C CPT code frequency report
- D Profit and Loss report

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Key Operating and Financial Metrics

Profitability Indicators

- Charity Care %
- Bad Debt %
- Collection Ratio
- Revenue per Patient Days, Discharges, and Units
- Cost per Patient Days, Discharges, and Units
- Ratio of Cost to Charges

Cost Indicators

- Number of full-time employees
- Full-time employees per occupied beds/visits
- Salary per full-time employee
- Benefits as a percentage of salary

Volume Indicators

- Discharges/admissions
- Patient Days
- Observation Days
- Average Length of Stay
- Average Daily Occupancy
- Outpatient Visits



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Key Operating and Financial Metrics

Monitor Trends, Benchmark Against Peers, Assess Budget vs. Actual Results

Balance Sheet Metrics

Liquidity

- Days cash on hand (Measurers how long an organization can cover operating expenses from liquid assets)
- Working Capital: Current Assets less Current Liabilities
- Days in Patient AR: Net Patient AR / (Net Patient Rev/365) (Indicates the number of days in average collection period)

Leverage & Capital Structure

- Debt to Equity
- Equity Financing: Net Assets / Total Assets (Measurers the % of total assets that has been financed with sources other than debt)
- Debt Service Coverage
- Debt Covenant Compliance

Endowment Spending Policy/Distribution Rate

- Best Practice: Spending Rate plus Inflation Allowance to preserve purchasing power should not exceed expected Total Long-Term Return

Profitability Indicators

Operating Margin

- Net Operating Income / Total Operating Revenue
- Measurers the operating profit retained per dollar of sales

Total Margin

- Net Income / Total Operating Revenue
- Measurers the net profit retained per dollar of sales inclusive of operating and non operating sources

Bad Debt Percentage

- Provision for Bad Debt/ Total Net Patient Service Revenue
- Measurers bad debts for trending and comparative purposes

Payer Mix

- Visits / Providers

Non-Recurring Items – Asset sales, extraordinary gifts/grants

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Other Reporting Requirements

IRS Reporting

- IRS Form 990, Form 990-EZ, Form 990-T, Form 990-PF (due 4.5 months after fiscal year-end)
 - Validating exempt status of NFP
- Massachusetts Form PC (due 4.5 months after year-end)
- Massachusetts Annual Report (due by November 1st)

Cost Reporting

- Support for reimbursable claims submitted
- Detail cost and allocation of cost to specific service centers
- Information of types of services provided

Uniform Guidance

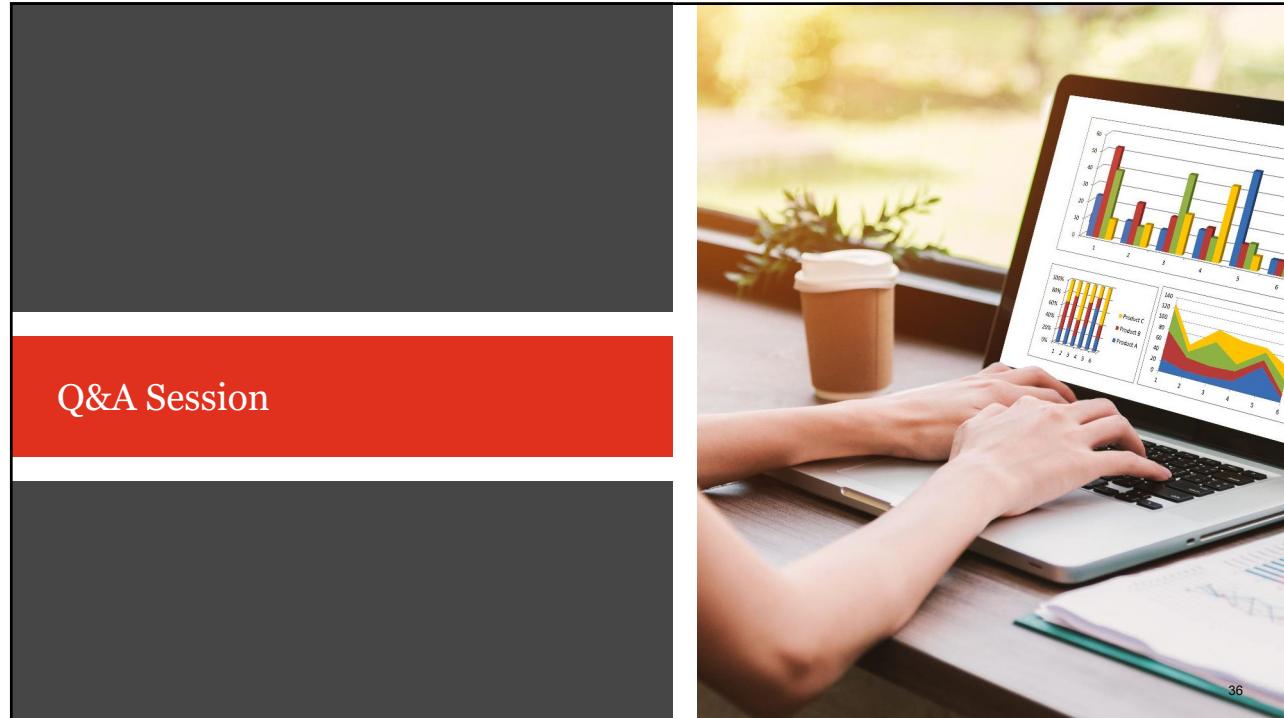
- States, local governments and non profit organizations with \$750,000+ of Federal awards during the fiscal year
- Preparation of the Schedule of Expenditures of Federal Assistance "SEFA" by government sponsor and contract
- COVID relief funding

Other

- MA Uniform Financial Report (entities receiving \$100,000+ in state contracts)
- Department of Education filing requirements for all healthcare entities that have a higher education component

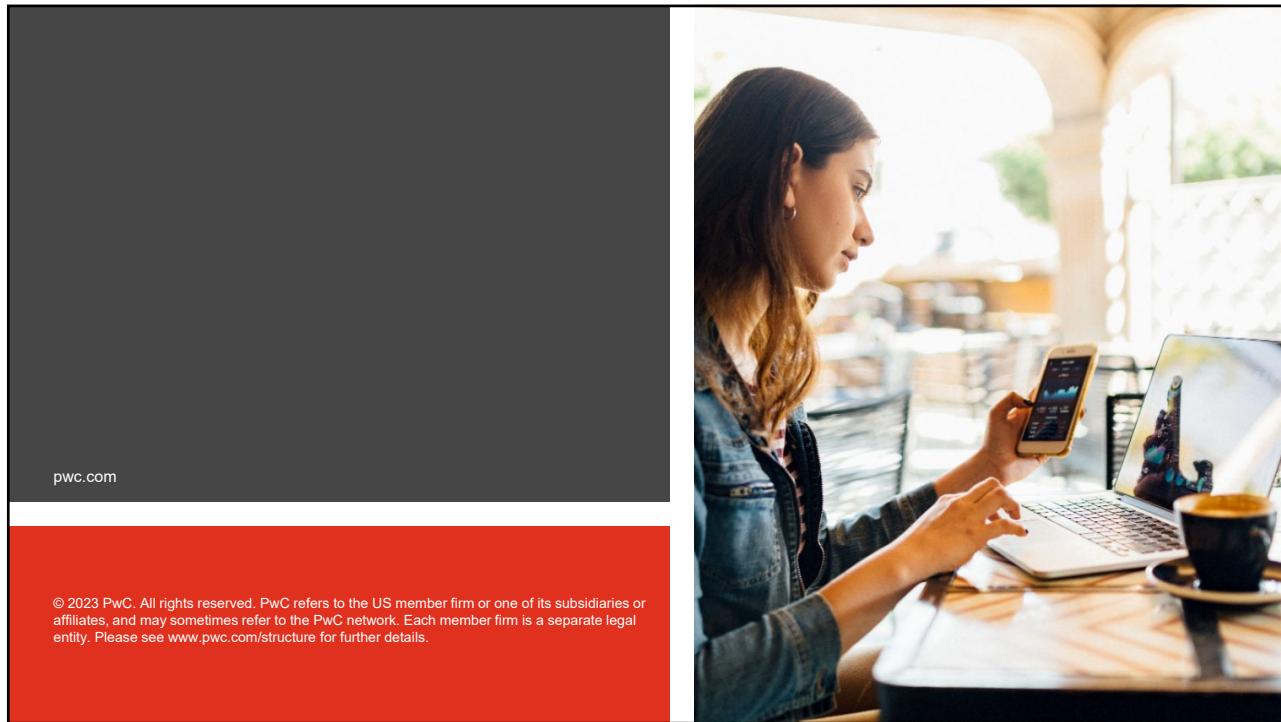
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