ELECTRONIC HEALTH RECORDS

Features, Evaluation and Selection

Electronic Medical Records
EMR

- Digital repository
- Not designed to be shared outside an individual provider
- Narrower view
- Replacement for paper records
- Can organize information, but have to interpret and react manually

Electronic Health Records
EHR

- Digital record of health information
- Streamlined sharing of updated, real-time information both internally and externally
- More comprehensive
- Information management tools to organize, interpret and react to data
- Health Level 7 compliant (HL7)

What is the difference between EMR and EHR?

Features of an EHR

- **Identify and maintain a patient/client record** - Identify and maintain a single record for each person.
- **Manage demographics** - Capture and maintain demographic information. Relevant, reportable and trackable over time data.
- **Present and manage plans, guidelines, and protocols** - Present organizational guidelines and tools for care as appropriate to support planning, care, order entry and documentation.
- **Communication** - Support secure electronic communication (inbound and outbound) between providers, pharmacies, labs, clients, family and representatives to improve continuity of care.

Features of an EHR

- **Decision support** - Using reminders, prompts, and alerts, computerized decision-support systems improve compliance.
- **Task assignment and routing** - Assignment, delegation and/or transmission of tasks to the appropriate parties.
- **Task and timeliness tracking** - Track tasks to guarantee that each task is carried out and completed appropriately in a timely manner.
- **Client, family and care giver education** - Identify and make available electronically or in print any educational or support resources for clients, families, and caregivers that are most appropriate for the person. Can be based on condition, diagnosis, etc

Features of an EHR

- **Workflow Management** - Support workflow management functions that use business rules to direct the flow of work assignments. Built around proven processes and procedures designed to improve the proficiency and effectiveness of a provider.
- **HL7 (Health Level 7) Standard Compliant –** Allows Technical, Semantic, and Process interoperability. Interoperability is ability of two or more systems or components to exchange information and to use the information that has been exchanged

The power of an EHR lies not only in the data it contains, but how it's shared and used. EHRs makes information instantly accessible to authorized providers across organizations, helping to inform decisions and coordinate care.

CHOOSING AN EHR

Evaluation and Selection

FRAMEWORK TO FINDING THE BEST EHR FOR YOUR ORGANIZATION

1. **Gather your requirements**
2. **Prioritize your requirements**
3. **Create a vendor shortlist**
4. **Send out RFP's to shortlisted vendors**
5. **Evaluate responses to RFP's**
6. **Invite top vendors to demo their EHR**
7. **Make your final decision**

IDENTIFY KEY INFORMATION FIRST

- Who will be the “project manager”?
- Who will be using the new system?
- What are our timelines?
- How will EHR serve our billing operations?
- What hardware do I have in place?
- What compliance and documentation requirements do we have?
- What is our budget?

1. GATHER YOUR REQUIREMENTS

- This is the most essential step in the process! If you fail to invest the necessary time and resources to this step, the process will suffer due to a lack of direction and focus.
- Assemble a selection team. Identify your key stakeholders – include staff from all functional areas such as direct care, management, billing, etc. Keep your team as small as you can but ensure all key stakeholder and user groups are adequately represented on your selection team by veteran staff.
- Develop a *detailed* list of requirements which will allow you to eliminate systems that are less than qualified for your needs
- Give your team a starting point. I start with a list of all requirements I know, then seek input from the team as to what I am missing.
- **LISTEN!**

2. PRIORITIZE YOUR REQUIREMENTS

- Break the requirements into manageable pieces (categories) that you can assign to individuals, and explain how you want them to prioritize. (I prioritize based on "Required" or "Desired"). Be realistic.
- Number one priority is regulation. Number two priority is meeting needs of staff – if their needs are being met, they will be more willing to buy into the new system
- Assign team members to cover their areas of expertise. Set deadlines for information to be returned.
- Meet on a scheduled basis to review progress and discuss cross-over functionality.
- Compile a comprehensive, prioritized list once all areas have assessed their needs. Make sure you allow for input from all stakeholders.

EXAMPLE PRIORITIZED REQUIREMENTS

EHR Functionality/Feature	*Required*	*Desired*
System		
Users able to run client through terminal services	X	
Custom reporting capability	X	
Group-based security	X	
Ability to support multiple provider locations	X	
Software hosted in-house	X	
SQL Server back end		X
Client and server system requirements should not exceed Windows Server 2007, 4.0 GHz dual core processor, 8.0 GB RAM		X
HIPAA Complant - Unique ID's and Automatic Logoff	X	
Complete audit controls	X	
Ability to see who is logged in at any pont in time and for how long		X
Clinical Management		
Basic Dempgraphics: Name, address, tel. #, SS#, sex, marital status,DOB, cell #	X	

3. CREATE A VENDOR SHORTLIST

- Research vendor options
- Ask professional associations, colleagues from other providers what they are using and determine their level of satisfaction
- Perform an online search. Be cautious. Just because a vendor has invested heavily in marketing doesn't make it the best system for you
- Do direct research on the vendor's site before making direct contact and sending out RFPs

4. SEND OUT RFP'S TO SHORTLISTED VENDORS

- A standardized Request for Proposal will help identify vendors that can meet your requirements within a reasonable budget.
- Clearly outline your goals and requirements
- Identify top priorities and include a realistic timeline for submitting the proposal; ask for references.

5. EVALUATE RESPONSES TO RFP'S

- Evaluate responses. Assess operations and professionalism as well as the system's features.
- Proposals should address each of your requirements. This is a good indicator of their attention to detail
- Cross-reference each with the list of prioritized requirements you developed
- Evaluate by grading the extent to which each requirement is satisfied. Keep it simple, and don't over-analyze. A 3- or 5-point scale works well. Low scores for sections that don't satisfy needs and high scores to those that address requirements accurately and extensively.
- If you accurately prioritized requirements during the previous steps, your evaluation process should be simple.

6. INVITE TOP VENDORS TO DEMO THEIR EHR

- Limit your demonstrations to three to five vendors to avoid confusion and simplify your process.
- Include your key stakeholders and selection committee in the process.
- Give them a list of points you would like covered in your demo so they can prepare accordingly.
- Create a "real-life" scenario, and ask them to show you how it would be handled in the system.
- Ask questions and get feedback from your team! Be sure to see how the system actually works and not just be told "it does that".

7. MAKE YOUR FINAL DECISION

- One of the factors that will affect your final purchase decision will be how well your team members responded to the proposals and demonstrations.
- Foremost, you want all functional areas to feel they have their needs met. Give their opinions high merit, as they will be using the system day in and day out.
- If you choose a system based on user needs, you will have greater user buy in. Simple as that.

FRAMEWORK TO FINDING THE BEST EHR FOR YOUR ORGANIZATION

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6. Invite top vendors to demo their EHR
7. Make your final decision

Financial Management

Electronic Health Records: Member Experiences

Linda Clouse, Developmental Services, Inc.

Christie Felger, Jay-Randolph Developmental Services, Inc.

Susan Hoard, Stone Belt Arc, Inc.

Financial Management

FASB Recent Accounting Pronouncements and Tax Reform:

What is Changing

Jason Graff, Senior Manager, Crowe Horwath, LLP

Crowe Horwath.

Smart decisions. Lasting value.™

FASB Update 2018

A look into our future…

May 2018

Introduction

- Jason Graff, Senior Manager
  - Indianapolis Office
  - 17 years in public accounting and 11 with Crowe
  - Works with Healthcare for profit and non-profits

Agenda and Session Objectives

- Overview of the following new Accounting Standards Updates ("ASU")
  - Presentation of Not-for-profit (NFP) Financial Statements (ASU 2016-14)
  - Revenue from Contracts with Customers (ASU 2014-09 and follow-up ASUs)
  - Leases (ASU 2016-02)

- Tax reform update

- After today's presentation you should be able to:
  - Identify the key content of each of the above ASUs
  - Understand how these ASUs affect your clients
  - Understand the timing for implementation for each ASU
  - Take away ideas for how to prepare for implementation*…*

Implementation Dates

Accounting Standards Update	Effective Date - Dec 31 year-end	Effective Date – Fiscal year-end
2016-14 (Presentation of NFP Financial Statements)	December 31, 2018	2019 (ie, 6/30/19)
2014-09 and follow-up ASUs (Revenue From Contracts with Customers)	December 31, 2019 **	2020 (ie, 6/30/20)**
ASU 2016-02 (Leases)	December 31, 2020**	2021 (ie, 6/30/21)**

**Note that NFPs that are conduit debt obligors must implement these Updates one year earlier.

ASU 2016-14 - Presentation of NFP Financial Statements

- ASU 2016-14 - Issued August 18, 2016
- Effective - 12/31/2018 year-end, or FY 2019; Early adoption is permitted

- Key objectives:
  - Update, not overhaul, the current model
  - Improve net asset classifications
  - Improve information in financial statements and notes about financial performance, cash flows and liquidity
  - Better enable NFPs to “tell their financial story”

Presentation of NFP Financial Statements (continued)

- Key Provisions of ASU 2016-14

Statement of Cash Flows

Liquidity & Availability

Net Asset Classification

Investment Return

Expenses

Presentation of NFP Financial Statements (continued)

- Cash Flow Statement
  - Continues to allow <u>choice</u> between the Direct Method and the Indirect Method in presenting operating cash flows. The indirect reconciliation is no longer required for the Direct Method…

Indirect Method

	2016	2015
Change in net assets	$ (97,821)	$ (540,070)
Adjustments to reconcile change in net assets to		
net cash from operating activities-		
Depreciation and amortization	269,584	254,559
Contributions restricted for property purchases	(60,582)	
(Gains) losses on investments	(22,060)	2,574
Changes in operating assets and liabilities:		
Grants and pledges receivable	(125,862)	27,305
Prepaid expenses and other assets	26,615	(2,300)
Accounts payable and accrued expenses	59,108	(44,825)
Deferred revenue	55,981	2,315
Net Cash From Operating Activities	**104,963**	**(300,442)**

Direct Method

	2016	2015
Cash received from donors for operations	$ 1,756,001	$ 1,390,824
Cash received from program fees and other	700,622	645,201
Cash payments to employees	(1,257,765)	(1,319,769)
Cash payments to vendors and others	(1,046,017)	(983,776)
Cash paid for interest	(47,878)	(32,922)
Net Cash From Operating Activities	**104,963**	**(300,442)**

Presentation of NFP Financial Statements (continued)

- Net asset classification
  - Updates the net asset presentation
  - Changes underwater endowment accounting and disclosure – potential one-time adjustment
  - Removes option for implied time restrictions on capital gifts
  - Enhances disclosures

- Liquidity & availability
  - Quantitative and qualitative disclosures about liquidity and availability of resources
    - Qualitative - how an NFP manages its liquid available resources and its liquidity risk (in the notes)
    - Quantitative - communicate the availability of an NFP's financial assets at the balance sheet date to meet cash needs for general expenditures within one year (on the face and/or in the notes)
    - The availability of an NFP's financial assets at the balance sheet date to meet cash needs within 1 year of the B/S date

Net Asset Presentation (after ASU 2016-14)

Current GAAP	Unrestricted	Temp. Restricted	Perm. Restricted
Revised GAAP	**Without Donor Restrictions***	**With Donor Restrictions***	
+			
Disclosures	**Amount, purpose, and type of board designations ****	**Nature and amount of donor restrictions**	

*** NFPs may choose to disaggregate further**
**** New disclosure requirement**

Presentation of NFP Financial Statements (continued)

- Net asset classification
  - Moves to two categories – without donor restrictions and with donor restrictions
  - New disclosures about amount, purpose and type of board designations
  - Nature and amount of donor restrictions

Net Assets [The level of detail presented here is not required, however if the information presented on the face is not sufficiently detailed, it must be included in the notes.]

Without donor restrictions		
Undesignated	3,057,607	1,370,401
Designated by the Board for operating reserve	300,000	250,000
Designated by the Board for endowment	15,511,186	14,912,222
Invested in property and equipment, net of related debt	21,150,885	20,193,878
	40,019,678	36,726,501
With donor restrictions		
Perpetual in nature	22,864,750	22,450,146
Purpose restrictions	14,228,316	10,351,233
Time-restricted for future periods	1,391,825	1,279,636
Underwater endowments	-	(42,677)
	38,484,891	34,038,338
Total net assets	78,504,569	70,764,839
Total liabilities and net assets	$ 94,314,447	$ 86,137,541

Presentation of NFP Financial Statements (continued)

- Net asset classification
  - Minimum Disclosure Requirements

Net assets:	
Without donor restrictions	125,056
With donor restrictions	162,268
Total net assets	287,324

Presentation of NFP Financial Statements (continued)

- Net asset classification – impact to Statement of Activities (one example)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Contributions	11,989	15,531	27,520
Fees	7,083		7,083
Investment return, net	113	(3,618)	(3,505)
Net assets released from restrictions	6,913	(6,913)	-
Total revenues and other support	26,098	5,000	31,098
Expenses:			
Program A	13,960		13,960
Program B	5,497		5,497
Management and general	4,609		4,609
Fundraising	1,441		1,441
Total expenses	25,507	-	25,507
Change in net assets	591	5,000	5,591
Net assets at beginning of year	124,465	157,268	281,733
Net assets at end of year	125,056	162,268	287,324

Presentation of NFP Financial Statements (continued)

Sample Net Asset Disclosure (after ASU 2016-14):

Net assets with donor restrictions are restricted for the following purposes or periods.

	20X1	20X0
Subject to expenditure for specified purpose:		
Building project	$ 500,000	$ -
Operation of the training center	448,377	108,927
Educational programs	375,627	119,290
Financial aid	146,105	85,744
Promises to give, the proceeds from which have been restricted by donors for		
Educational programs	57,265	-
Centennial anniversary celebration	22,847	-
	1,550,221	313,961
Subject to the passage of time:		
Beneficial interests in charitable trusts held by others	812,850	804,179
Assets held under split-interest agreements	558,975	440,457
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	20,000	35,000
	1,391,825	1,279,636
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
Restricted by donors for		
Available for general use	7,223,171	5,252,329
Educational programs	4,186,393	3,761,284
Financial aid	1,268,531	1,023,659
	12,678,095	10,037,272

Presentation of NFP Financial Statements (continued)

Sample Net Asset Disclosure (after ASU 2016-14) - continued:

Subject to NFP endowment spending policy and appropriation:		
Operation of the Training Center	6,811,531	6,726,382
Educational programs	8,279,742	8,000,578
Financial aid	1,688,411	1,686,761
General use	2,058,166	2,058,166
Unconditional promises to give, net - permanently restricted to general endowment	336,999	372,553
Underwater endowments	-	(42,677)
	19,174,849	18,801,763
Total endowments	31,852,944	28,839,035
Not subject to spending policy or appropriation:		
Beneficial interest in assets held by community foundation	1,094,842	1,090,505
Beneficial interests in perpetual trusts	2,595,059	2,515,201
	3,689,901	3,605,706
	$ 38,484,891	$ 34,038,338

Presentation of NFP Financial Statements (continued)

- Liquidity & availability
  - Quantitative and qualitative disclosures about liquidity and availability of resources

Sample Narrative Disclosure:

Our endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

Our board-designated endowment of $15,511,186 is subject to an annual spending rate of 4.5 percent as described in Note 9. Although we do not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of our liquidity management plan, we invest cash in excess of daily requirements in short-term investments, CDs, and money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was $300,000 as of December 31, 201X.

Our financial assets are structured to be available as general expenditures, liabilities, and other obligations come due. To manage unanticipated liquidity needs, we also have committed lines of credit in the amount of $20 million, which we may draw upon if required.

Presentation of NFP Financial Statements (continued)

Sample Liquidity Disclosure (after ASU 2016-14)

Financial assets, at year-end*	$ 234,410
Less those available unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(11,940)
Subject to appropriation and satisfaction of donor restrictions**	(144,500)
Investments held in annuity trust	(4,500)
Amounts held by bond trustees	(30,200)
Board designations:	
Quasi-endowment fund, primarily for long-term investing**	(36,600)
Amounts set aside for liquidity reserve	(1,300)
Financial assets available to meet cash needs for general expenditures within one year	$ 5,370

*Total assets, less nonfinancial assets (e.g., PP&E, inventory, prepaids)

**Excludes amounts that have been appropriated for next 12 months that do not have purpose restrictions

Presentation of NFP Financial Statements (continued)

- Liquidity & availability
  - Quantitative and qualitative disclosures about liquidity and availability of resources

<u>Sample Table Disclosure</u>:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	$	4,851,231
Accounts receivable		312,216
Operating investments		723,006
Promises to give		965,846
Distributions from assets held under split-interest agreements		145,000
Distributions from beneficial interests in assets held by others		180,110
Endowment spending-rate distributions and appropriations		1,115,664
	$	8,293,073

Presentation of NFP Financial Statements (continued)

- Expenses
  - Requirement to report expenses by function (already required) *and natural classification*
  - Analysis showing the relationship between function and nature
  - Additional qualitative information about cost allocations
  - ALL NFPs must report information about all expenses in one location – on the face of the Statement of Activities, as a schedule in the notes to the financial statements, or as a separate statement. NOTE – including this as a supplemental schedule is not an option

	Program Services			Supporting Activities			
	Program A	Program B	Program Subtotal	Management & General	Fund-raising	Supporting Subtotal	Total Expenses
Salaries, benefits, and taxes	$ 7,400	$ 5,625	$ 13,025	$ 1,130	$ 960	$ 2,090	$ 15,115
Grants to other organizations	2,075	2,675	4,750				4,750
Supplies and travel	890	1,512	2,402	213	540	753	3,155
Services and professional fees	160	2,090	2,250	200	390	590	2,840
Office and occupancy	1,160	1,050	2,210	218	100	318	2,528
Depreciation	1,440	1,370	2,810	250	140	390	3,200
Interest	171	164	335	27	20	47	382
Total expenses	$ 13,296	$ 14,486	$ 27,782	$ 2,038	$ 2,150	$ 4,188	$ 31,970

Presentation of NFP Financial Statements (continued)

Example Disclosure of Allocation Method for Expenses

Note 5 - Methods Used for Allocation of
Expenses Among Program and Supporting Services

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Those expenses include depreciation, the Executive Director's office, communications department, and information technology department. Depreciation is allocated based on a square footage basis, the Executive Director's office is allocated based on a time and cost study of where efforts are made, certain costs of the communications department are allocated based on the benefit received, and the information technology department is allocated based on a cost study of specific technology utilized.

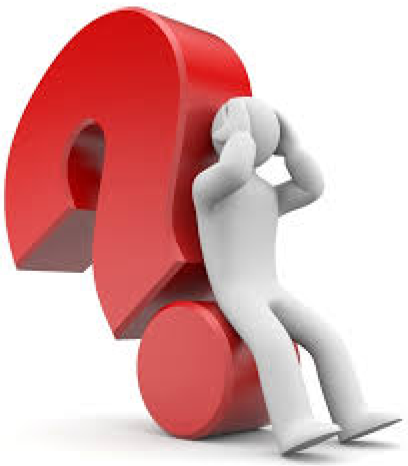
Note: NFPs required to provide qualitative disclosures about methods used to allocate costs among program and support functions

Presentation of NFP Financial Statements (continued)

- Investment return
  - Present investment return net of external and direct internal investment expenses
  - No longer required to disclose netted expenses
- Direct internal investment expenses involve the *direct conduct* or *direct supervision* of the strategic and tactical activities involved in generating investment return. The following are some examples:
  - **CIO's Compensation:** Potentially all of expense
  - **CFO's Compensation:** Potentially a partial allocation of expense
  - **Investment Accountant's Compensation:** Potentially a partial allocation of expense
  - **CIO's Travel Expenses to Visit Fund Managers:** Potentially all of expense
  - **Accountant Performing Endowment Allocations:** None

New Financial Reporting Standard

Questions?



ASU 2014-09 and related amendments – Revenue Recognition

- Objective: to develop a single, principle-based revenue standard for generally accepted accounting principles and international financial reporting standards

- Scope: All contracts with customers, except
  - Lease contracts
  - Insurance contracts
  - Financial instruments
  - Guarantees
  - Nonmonetary exchanges in the same line of business to facilitate sales to customers

- Contracts that are not with customers are excluded
  - Contributions
  - Collaborative arrangements

Revenue Recognition (continued)

- Core principle: recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services

- 5 steps to apply the core principle:
  - Identify contracts with customers
  - Identify **performance obligations**
  - Determine the **transaction price**
  - Allocate **transaction price**
  - Recognize revenue when (or as) a **performance obligation** is satisfied

Revenue Recognition (Continued)

Current GAAP revenue recognition guidance	New standards for revenue recognition
1. Persuasive evidence of an arrangement exists	1. Identify the contract(s) with a customer
	2. Identify the performance obligations in the contract
2. The arrangement fee is fixed or determinable	3. Determine the transaction price
3. Delivery or performance has occurred, and	4. Allocate the transaction price to the performance obligations in the contract
	5. Recognize revenue when (or as) the entity satisfies a performance obligation
4. Collectability is reasonably assured	Is now part of Step 1

Revenue Recognition (continued)

- New disclosures
- Disaggregation of revenue
  - Qualitative disaggregation of revenue into categories that depict how revenue and cash flows are affected by economic factors
- Information about contract balances (public entities only)
- Remaining performance obligations (public entities only)
- Areas of focus for NFPs discussed by the AICPA Task Forces
  - Tuition and housing fees
  - Membership dues
  - Grants
    - Project added to FASB Technical Agenda to improve and clarify existing guidance

Revenue Recognition (continued)

Possible Revenue Streams Subject to New Guidance

- *Royalty agreements*
- *Advertising*
- *Licenses*
- *Grant contracts*
- *Memberships*
- *Subscriptions*
- *Product Sales*
- *Service Revenue*
- *Sponsorships*
- *Conferences*
- *Tuition*

Revenue Recognition (continued)

ASU 2014-09 - *Revenue from Contracts with Customers*

- Bifurcation
  - 958-605-55-2:
    - "... A grant, sponsorship, or membership may be entirely a contribution, entirely an exchange, or a combination of the two..."
  - 958-605-55-6:
    - "Moreover, a single transaction may be in part an exchange and in part a contribution…See paragraphs 958-720-45-18 through 45-19… 958-225-55-11 through 55-15 for direct benefits provided to donors at special events."

Example - NFP has annual dues of $50, and the only tangible benefit members receive is an monthly newsletter with a total fair value of $20.

Revenue Recognition (Continued)

- Grants and contracts to NFPs (**Exposure Draft**)
  - Long-standing diversity in practice in classifying grants and contracts, particularly from governmental entities

  - Issue 1: Reciprocal (exchange) versus nonreciprocal
    - Many NFPs treat grants and contracts with government entities as exchange transactions
    - Some equate the government with the general public – issue is whether government receives direct commensurate value in return (because the public benefits)
    - Many believe the government doesn't give contributions

  - Issue 2: Conditional versus unconditional
    - Stakeholders find it difficult to distinguish between conditional and unconditional contribution causing diversity in application
    - If funds are provided with certain stipulations, there's difficulty in distinguishing whether contribution is conditional, restricted or both.
    - Diversity in application of "remote" notion – whether likelihood of failing to meet a condition is remote (Some NFPs believe any condition within their control has a remote likelihood of not being met

Revenue Recognition (Continued)

- Current practice - exchange transactions can include:
  - Direct commensurate value to provider
  - Specified third parties
  - General public
- Proposed clarification - exchange transactions will include:
  - Direct commensurate value to provider
  - Specified third parties if it is a government / resource provider who is a third party payer on behalf of an identified customer
- Proposed clarification - non-exchange transactions will include:
  - Specified third parties – open as to whether a “performance obligation” could include contracts where the general public is the primary beneficiary
  - General public

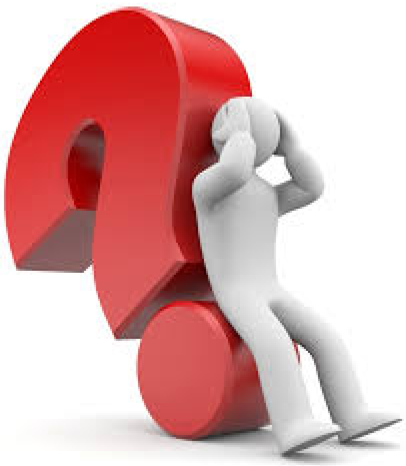
Revenue Recognition (Continued)

- Conditional versus unconditional contributions
  - For a donor-imposed condition to exist
    - A right of return/release must exist and
    - The agreement must include a barrier
  - Indicators to determine a barrier would include
    - Measurable performance related or other measurable barrier (specified level of services, outputs, outcomes, outside events, matching, etc.)
    - Excludes barriers unrelated to the primary purpose of the Agreement. This would exclude administrative tasks and trivial stipulations.
- Timeline:
  - Final ASU expected in early 2018

Revenue Recognition (continued)

- Steps to take now to plan ahead:
  - Take inventory of the various revenue streams your organization has
  - Identify whether revenue streams quality as contracts with customers
  - For those that fall under the revenue recognition guidance, work through the five steps to determine appropriate revenue recognition
  - Share information on the new guidance with those responsible for executing contracts. Slight changes in contracts might change the revenue recognition so it is important to keep an inventory of these and be uniform where possible
  - Document your assessment in memos, review internally, and review with your auditor

Questions



Leases

- ASU 2016-02, Leases (Topic 842)
  - Issued February 2016 (effective years beginning after 12/15/2019)
    - Significant change under the new standard - Requires lessees to recognize all leases with terms greater than 12 months on their balance sheet as lease liabilities with a corresponding right-of-use asset.
    - For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term.

SEC estimates $1.25 trillion in off balance sheet operating lease commitments for just SEC registrants!

Leases (continued)

Lessee Accounting Overview:

- Statement of Financial Position Impact:
  - Lessee will receive a right-of-use (ROU) asset, in exchange for lease payments to the lessor
  - Future lease payments will be presented on the balance sheet as a lease liability

- Statement of Activities Impact:
  - Lease expense on a straight-line basis

- Statement of Cash Flows Impact:
  - Cash paid for lease payments

Leases (continued)

Identifying a lease includes determining that the following are present:

Identified Asset	Right to Control Use During Term
Explicitly or implicitly specified	Ability to obtain substantially all of the economic benefits from the use
No ability to substitute (or no benefit from substituting)	Right to direct the use of the identified asset

Most leases today will be leases under the new standard!

Leases (continued)

Criteria

- Five classification criteria (ASC 842-10-25-2) similar to existing GAAP
- Largely based on whether lessee obtains control of the underlying asset rather than control over merely **<u>the use of</u>** the underlying lease asset
- "Reasonably certain to exercise"
  - Lease term includes periods subject to extension options if the lessee is ***Reasonably Certain*** to exercise that option
  - Application of reasonably certain in the lease term assessment and consideration of options to purchase is intended to be applied similar to the existing "reasonably assured" threshold

Related party leases

- Accounted for on the basis of legally enforceable terms and conditions stated in the lease, rather than on the basis of the lease's economic substance.

Leases (continued)

	Finance Lease	Operating Lease
Has control of the lease asset passed to the lessee?	Yes	No
Balance sheet	Right-of-use asset Lease liability	Right-of-use asset Lease liability
Income statement (characterization)	Interest expense Amortization expense	Lease expense (including initial direct costs)
Pattern of expense	Front-loaded	Straight-line
Cash flow statement	Operating - cash paid for interest Financing - cash paid for principal	Operating - cash paid for lease payments

Leases (Continued)

Example:

A 10 year operating lease with payments totaling $750,000 in the amounts shown below

Year 1: FY 2016	$ 50,000
Year 2: FY 2017	50,000
Year 3: FY 2018	50,000
Year 4: FY 2019	50,000
Year 5: FY 2020	50,000
Year 6: FY 2021	100,000
Year 7: FY 2022	100,000
Year 8: FY 2023	100,000
Year 9: FY 2024	100,000
Year 10: FY 2025	100,000
Total cash	$ 750,000

Risk free rate	1.57%	Risk free rate for a 10 year T-bill at 9/1/2016
Initial lease liability	$650,000	Calculated net present value

Leases (Continued)

Example:

A 10 year operating lease with payments totaling $750,000 in the amounts shown below

- Debit the right of use asset $650,000 and Credit lease liability the present value of $650,000
- You would need to calculate a change in net present value for each year of the lease and apply the Credit to cash for payments between a Debit to the lease liability “principle” and the remainder to interest expense.
- Each year you calculate the updated present value of the liability
- Then you would record the following entries:
  - Debit straight-line rent expense $75,000
  - Debit $60,000 to reduce the leasehold liability (based on change in present value)
  - Credit $50,000 for the cash payment
  - Credit accumulated amortization on the right to use asset $85,000 (based on straight-line rent less interest on liability)

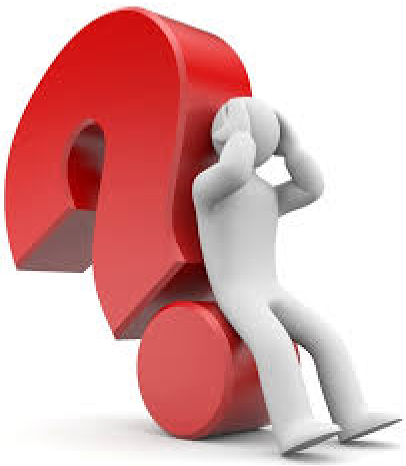
Leases (Continued)

ASSETS		
Current assets		
Cash and cash equivalents	$	2,254,625
Prepaid expenses and other current assets		189,410
Total current assets		2,444,035
Property and equipment		1,434,584
Less accumulated depreciation		(558,608)
Property, equipment and software, net		875,976
Right to use office space		2,116,000
	$	5,436,011
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$	285,126
Lease liability for office space - short term		200,000
Total current liabilities		485,126
Lease liability for office space - long term		1,916,000
Total liabilities		2,401,126

Leases (continued)

- Steps to take now to plan ahead:
  - Take an inventory of the various leases you have throughout the organization
  - This should include involving various stakeholders and maintaining a centralized location for all lease contracts
  - Pay particular attention to information technology related contracts that might at first appear to be a “license” agreement but in substance fall under the lease guidance
  - Make various stakeholders in the organization aware of the impending new lease guidance so that as new leases are entered the information can be collected
  - Assess significant leases for the potential impact in advance so that this is not a surprise when this Update is implemented
  - Make banks/lenders aware as this potentially might impact covenants
  - Note that this is required to be retrospectively adopted to the earliest date presented

Questions



Tax reform update

- Tax reform matrix
  - Tax provisions
  - Comments/Observations

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Financial Management

Managing Client Finances: Panel Discussion

Abdul Barrie, Benchmark Human Services

Steve Hobby, Dungarvin Indiana, LLC

Linda Johnson, Arc of Wabash County, Inc.

Tom Franke, Developmental Services, Inc.

Financial Management

Section Discussion

Linda Johnson, Arc of Wabash County, Inc.

Kay Louth, Jay-Randolph Developmental Services, Inc.

Misty Woltman, Easterseals Arc of Northeast Indiana