

Martha and Mary Lutheran Services

2018 Audit Results and Report to the Board of Trustees

March 25, 2019

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Section A: Required Governance Communications

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Required Governance Communications

Our responsibility under Generally Accepted Auditing Standards	<ul style="list-style-type: none">• Express an opinion on the fair presentation of the consolidated financial statements in conformity with GAAP<ul style="list-style-type: none">• Supplementary information – consolidating schedules• Adoption of FASB ASU 2016-14• Plan and perform the audit to obtain reasonable, not absolute, assurance• Evaluate internal control over financial reporting<ul style="list-style-type: none">• Determine the nature, timing, and extent of audit procedures based on risk assessments and our evaluation of internal control• Utilize a risk based audit approach• Communicate significant matters to appropriate parties
Planned scope and timing of the audit	<ul style="list-style-type: none">• Performed the audit according to the planned scope and timing previously communicated



Required Governance Communications

Significant accounting estimates	<ul style="list-style-type: none">• Examples: AR allowance for doubtful accounts, incurred but not reported (IBNR) medical insurance claim, and goodwill impairment analysis, functional allocation of expenses• Determined based on management's knowledge and experience• No indicators of management bias• Estimates appear reasonable
Significant accounting policies	<ul style="list-style-type: none">• Management is responsible for accounting policies• Outlined in Note 1 to the financial statements• Adoption of FASB ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities
Other information in documents containing audited consolidated financial statements	<ul style="list-style-type: none">• Financial statements may only be used in their entirety• Our approval is required to use our audit reports in any client prepared documents



Required Governance Communications

Significant Disclosures	<ul style="list-style-type: none"> • Adoption of FASB ASU 2016-14 • Liquidity Note • Functional Expense Disclosure • No sensitive disclosures • No Significant risks, exposures, or uncertainties • No unusual transactions
Management Representations	<ul style="list-style-type: none"> • Management representation letter to be provided
We Experienced <u>No</u> :	<ul style="list-style-type: none"> • Difficulties encountered in performing the audit • Issues discussed prior to retention as independent auditors • Disagreements with management regarding accounting, reporting, or auditing matters • Consultations with other independent accountants





Section B: Internal Control Communications

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Internal Control Communications

Purpose

- Express an opinion on the consolidated financial statements, not on the effectiveness of internal controls.

Material Weaknesses

- Reasonable possibility that a material misstatement would not be prevented, or detected and corrected on a timely basis.

Significant Deficiencies

- Less significant than a material weakness, yet important enough to merit the attention of governance.



Management Discussion Items

Other Items

- Accounting for WA State Forgivable Loan
- Allowance – Balance Sheet approach monthly/quarterly
- Accounting for Donations
 - Capital vs. Operating
 - Donor Restricted vs. MMLS Designated
- Credit Card Support
- Approval of Wage Changes
- Information Technology and HIPAA Compliance
 - IT Risk Assessment
 - Login Access in PCC
 - Passwords
 - USB Access





Section C: Financial Graphs and Ratios

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Financial Graphs and Ratios

Comparative Data Used

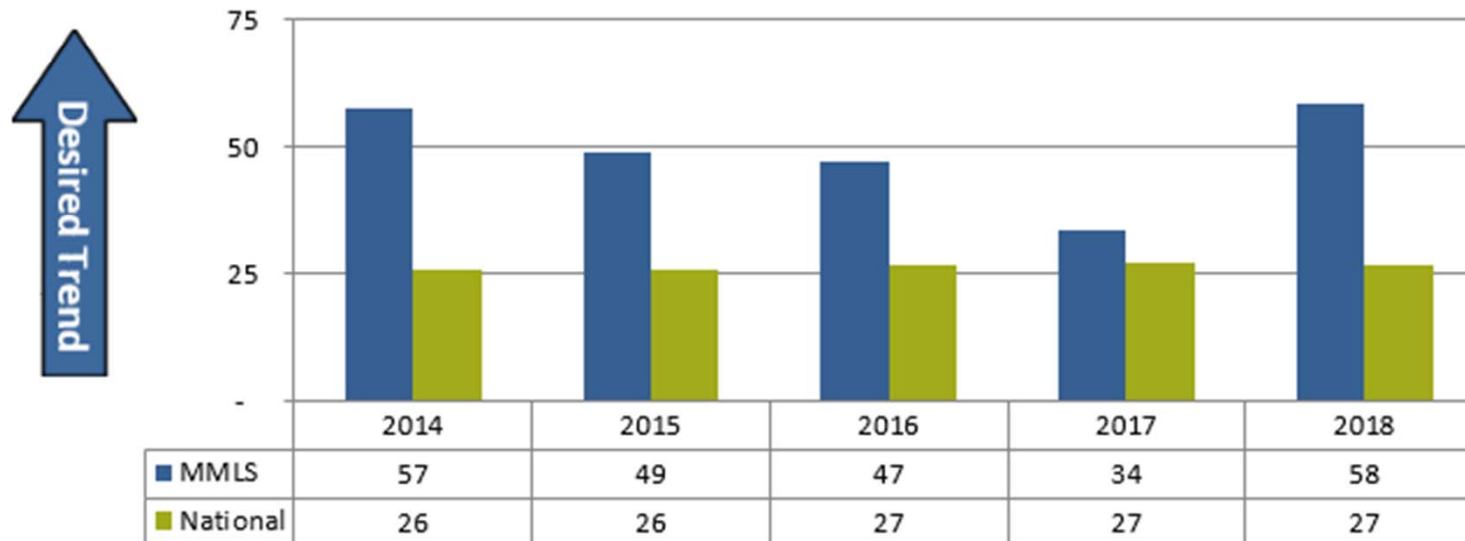
- **Martha and Mary Lutheran Services**
 - Includes the financial statement data from 2014-2018
 - Excludes VGK in all years
- **CLA**
 - Includes median data from approximately 500 CLA senior living clients
 - Used as a Guide
 - ◇ No two organizations are the same
 - ◇ Trajectory more important than values



Days Cash on Hand (Cash)

Days Cash on Hand

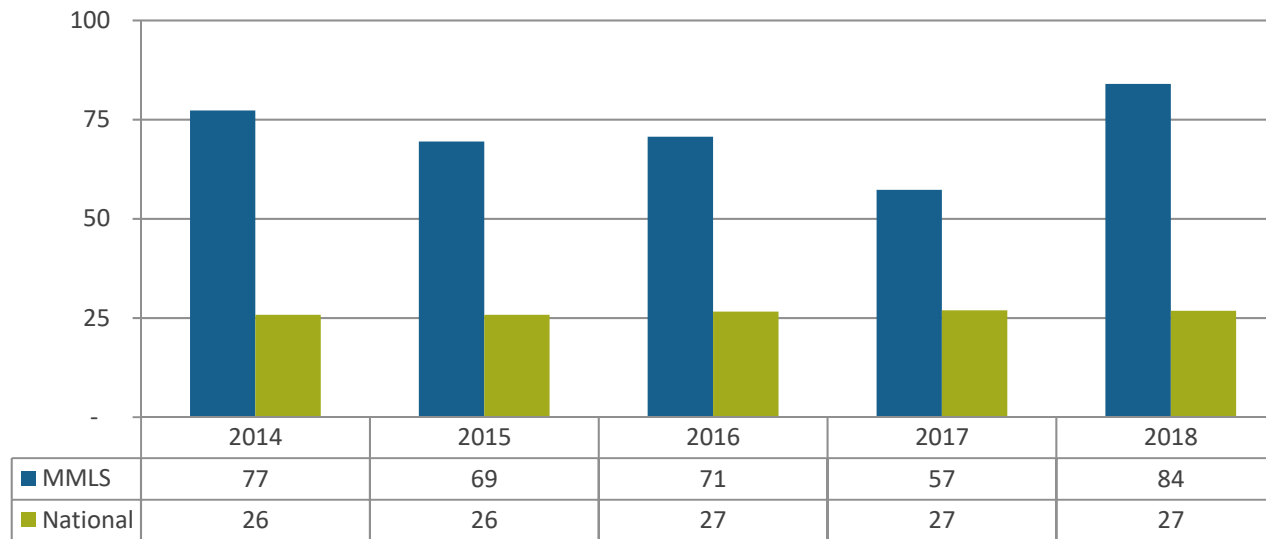
Measure of the number of days of cash operating expenses an organization could cover with its unrestricted cash and investments



Days Cash on Hand (Cash + Investments)

Days Cash on Hand

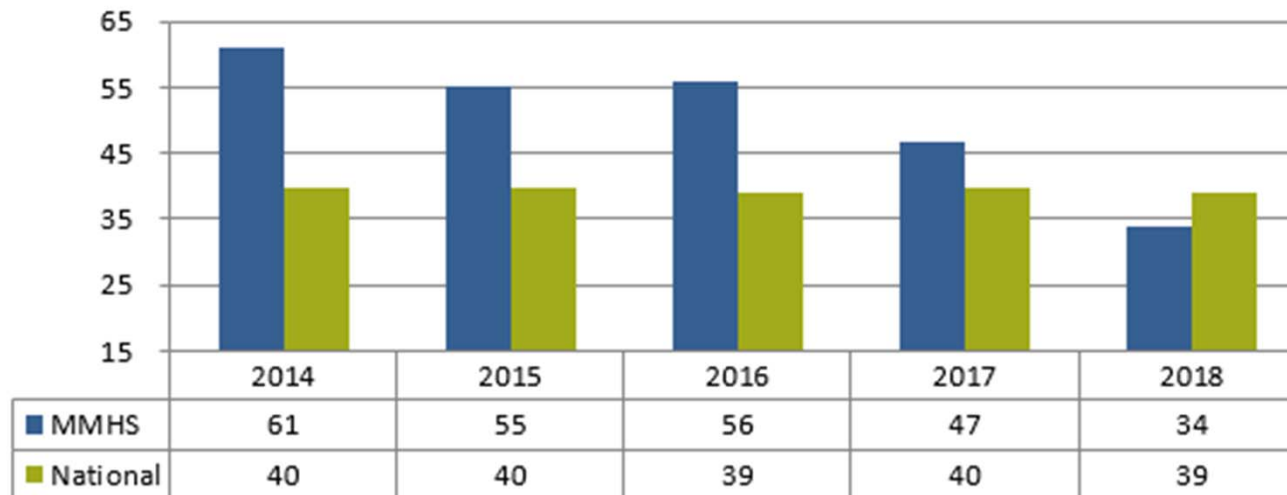
Measure of the number of days of cash operating expenses an organization could cover with its unrestricted cash and investments



Health Services

Days Revenue in Accounts Receivable

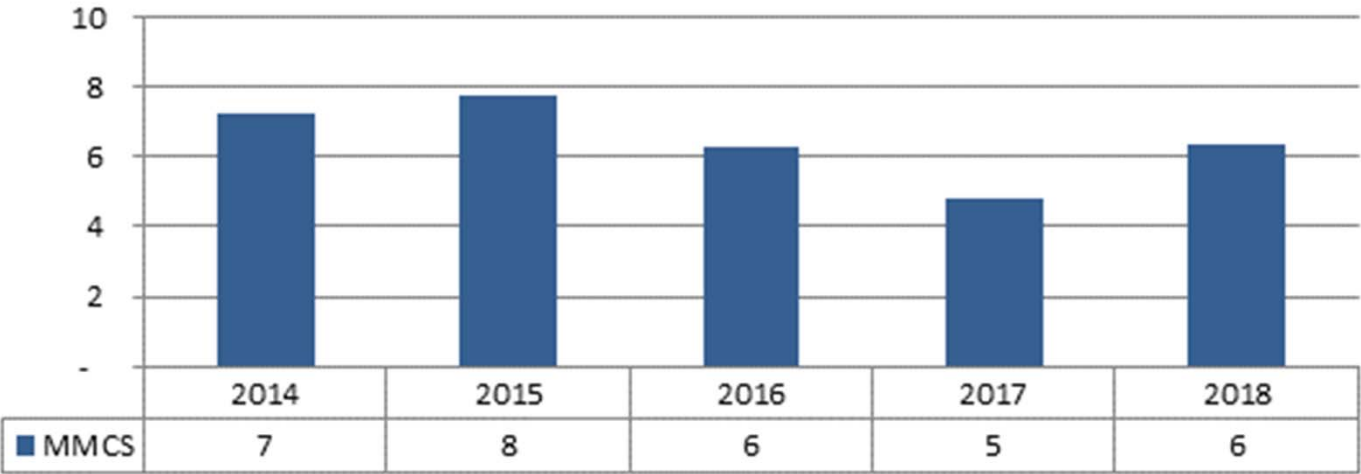
Measure of the average number of days accounts receivable outstanding. Compares accounts receivable (net of allowance) to the average daily revenue received from resident and healthcare revenues



Children's Services

Days Revenue in Accounts Receivable

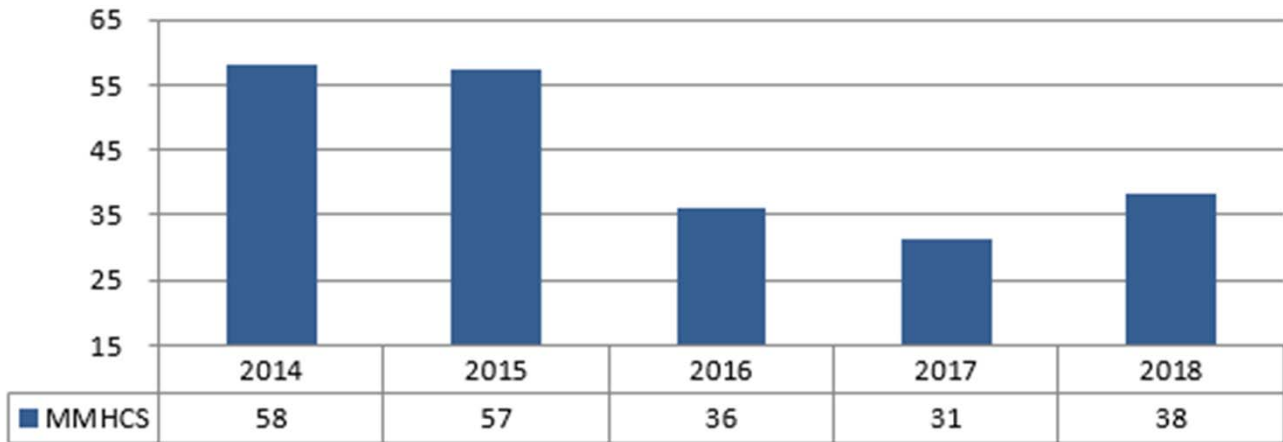
Measure of the average number of days accounts receivable outstanding. Compares accounts receivable (net of allowance) to the average daily revenue received from tuition revenues



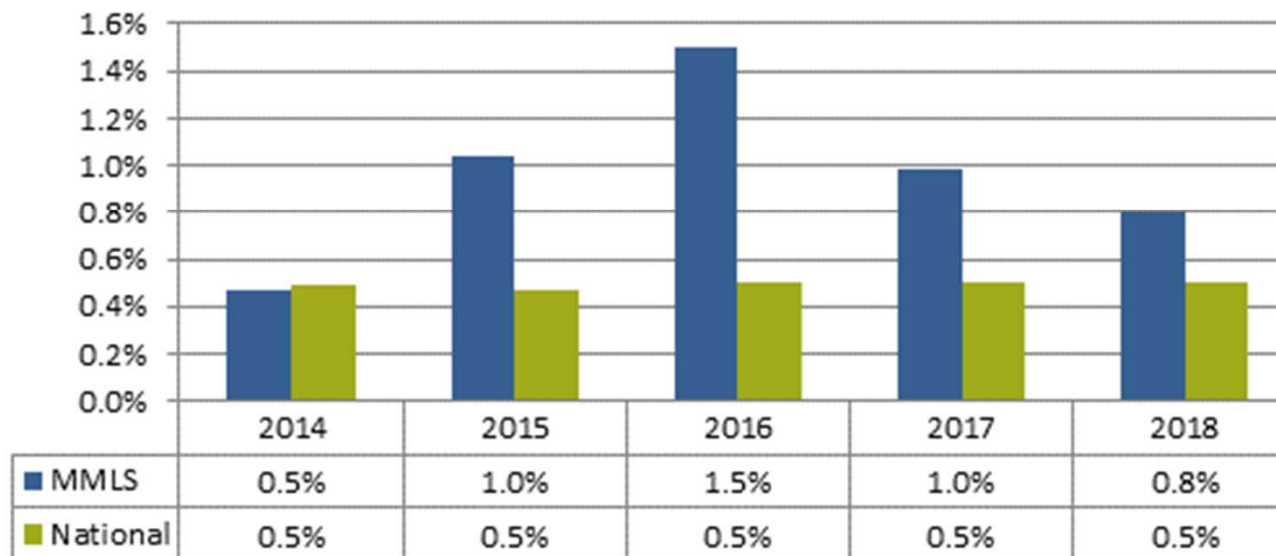
Home Care

Days Revenue in Accounts Receivable

Measure of the average number of days accounts receivable outstanding. Compares accounts receivable (net of allowance) to the average daily revenue received from home care revenues



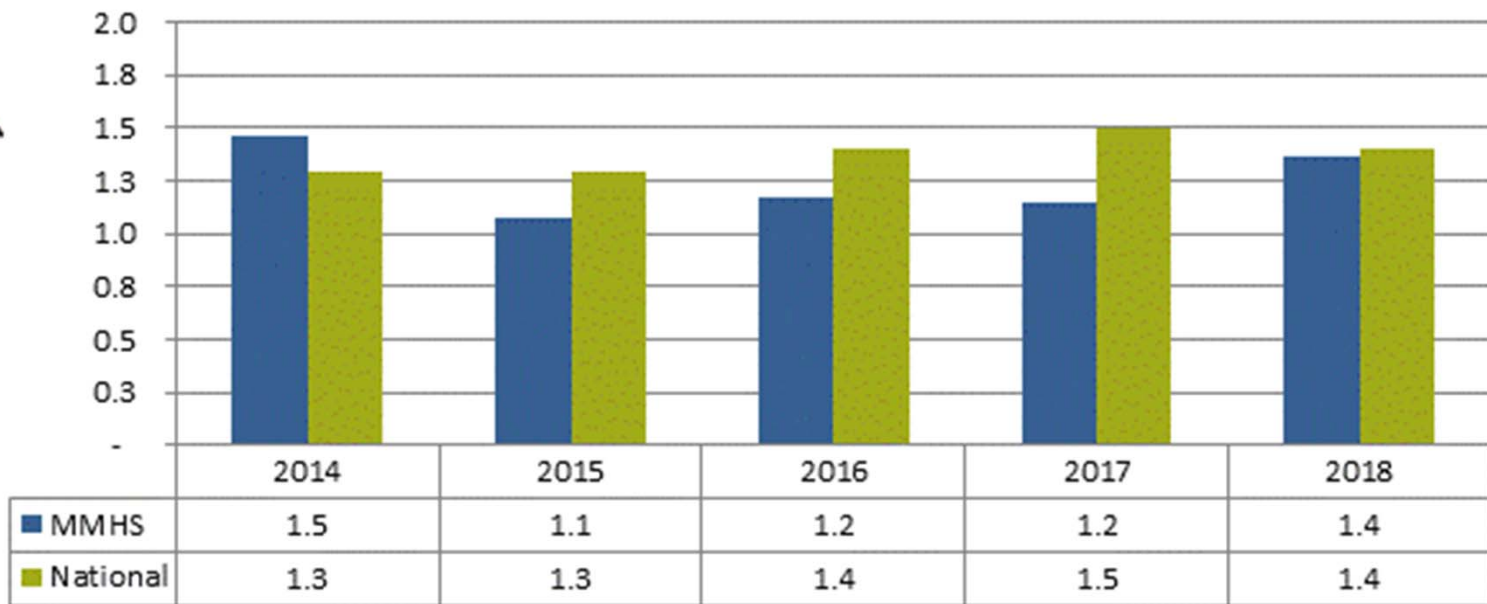
Bad Debt Expense as a Percentage of Revenues





Current Ratio

Current Assets Divided by Current Liabilities



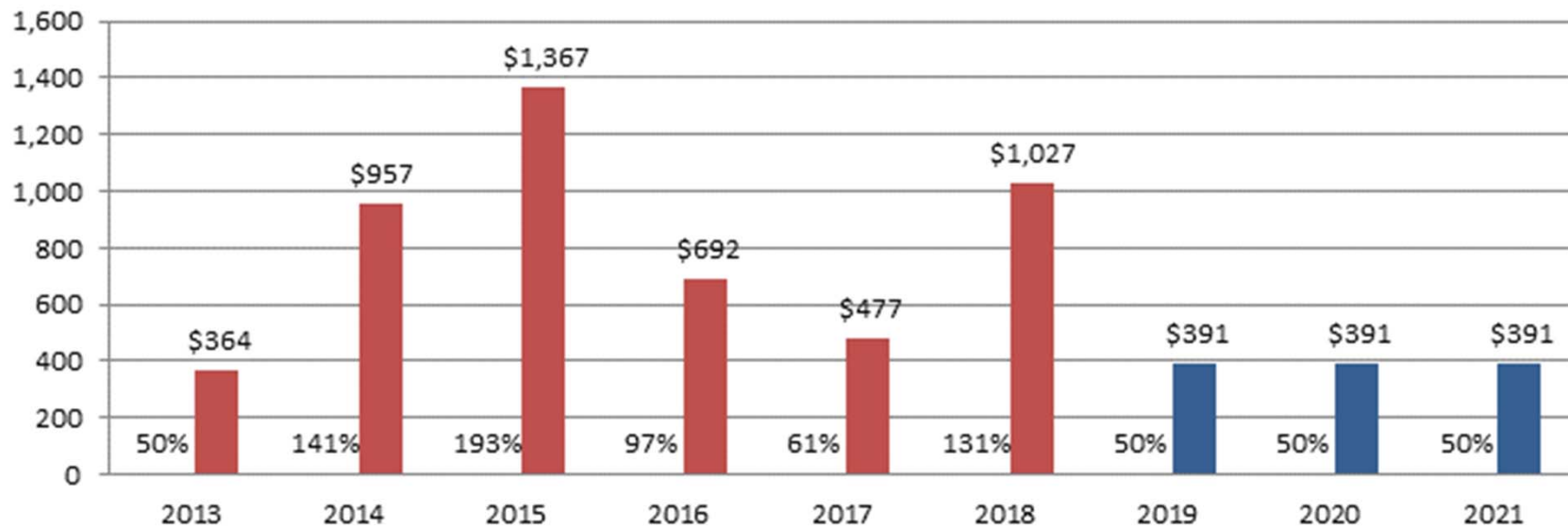
Average Age of Plant

Measures the average age of a facility by estimating the number of years depreciation has already been realized by dividing depreciation expense by accumulated depreciation.



Health Services

Capital Spending as a % of Depreciation



50% of Depreciation

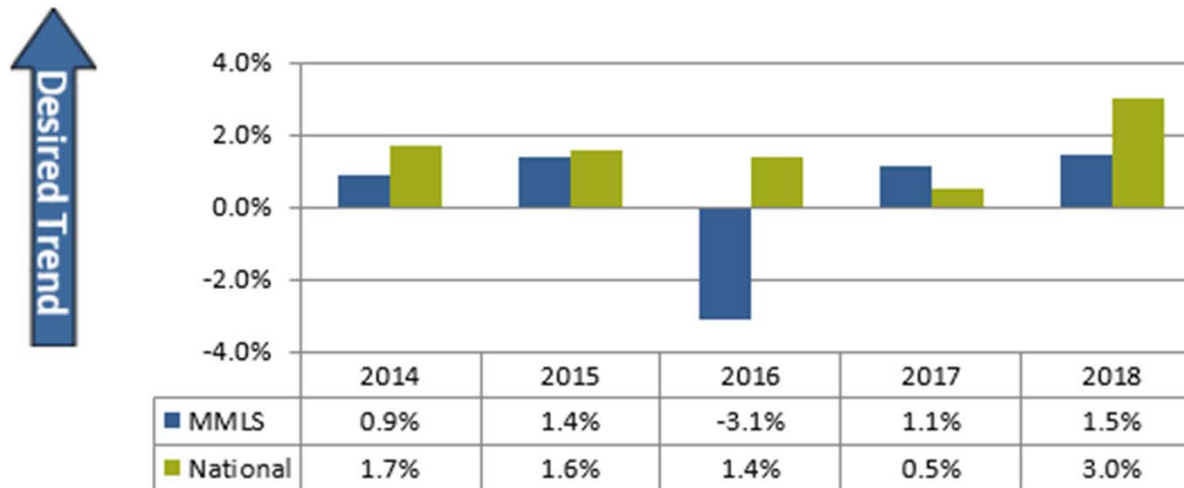


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Total Margin Ratio

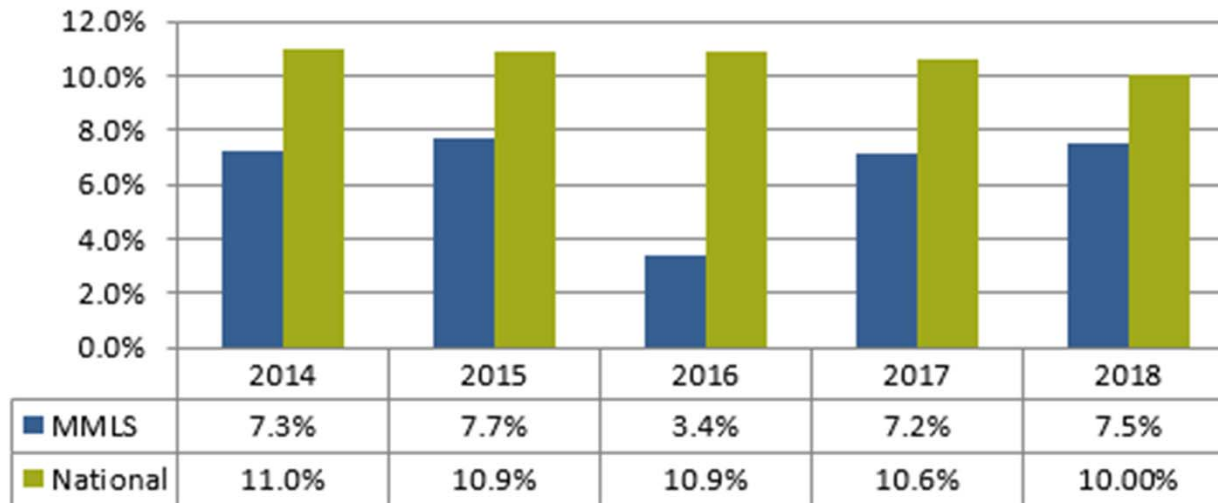
Total Margin Ratio

Measures the total return on revenues. Difference between the total margin and operating margin is that total margin includes revenues received from contributions and investment earnings.



EBIDA

Earnings before interest, depreciation and amortization measures an organization's total profitability from pure operations and excludes costs incurred related to financing and capital.



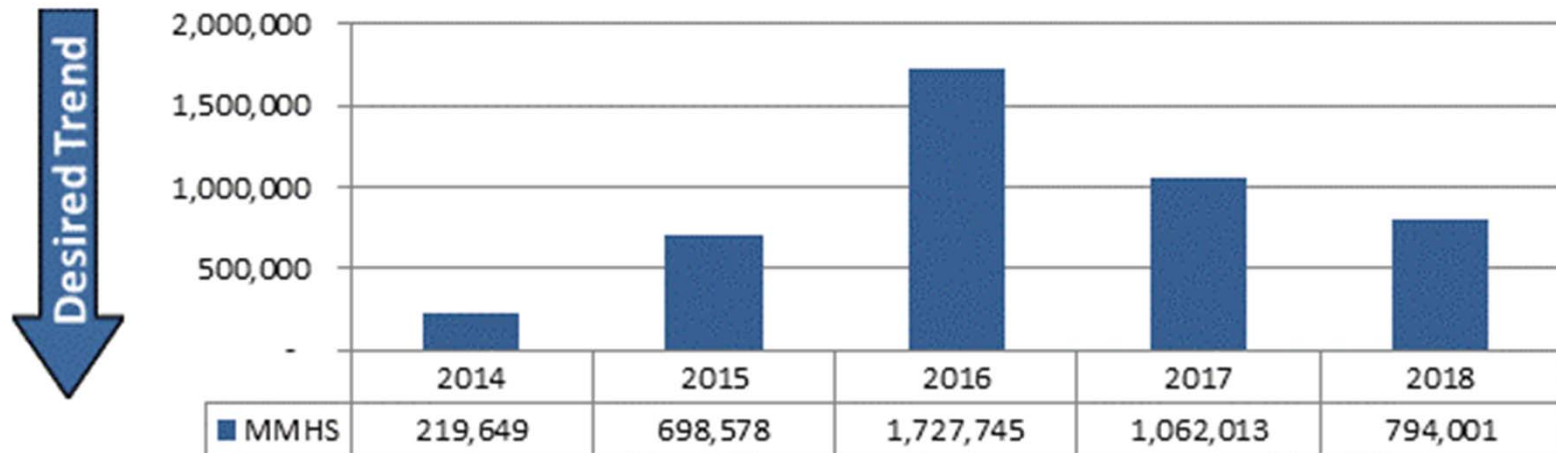
Debt Service Coverage

Measures an organization's ability to meet its annual debt payments by dividing its net income available for debt service by its annual debt service requirements.



Related Party Payable - Health Services

Shows the change in the related party payable in Health Services for the past few years.





Section D: Industry and Regulatory Trends

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Key Issues Facing Skilled Nursing Facilities

Demographic
Changes

Regulatory
Scrutiny

Post-Acute
Network
Formation

Changing
Payment
Mechanisms

Workforce
Challenges

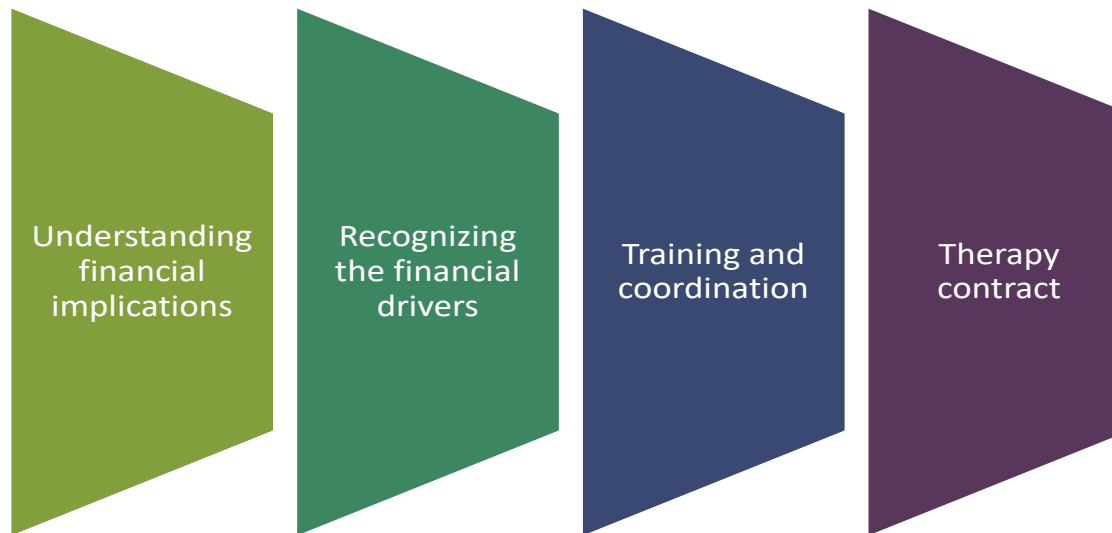


SNF Payment Model Changes

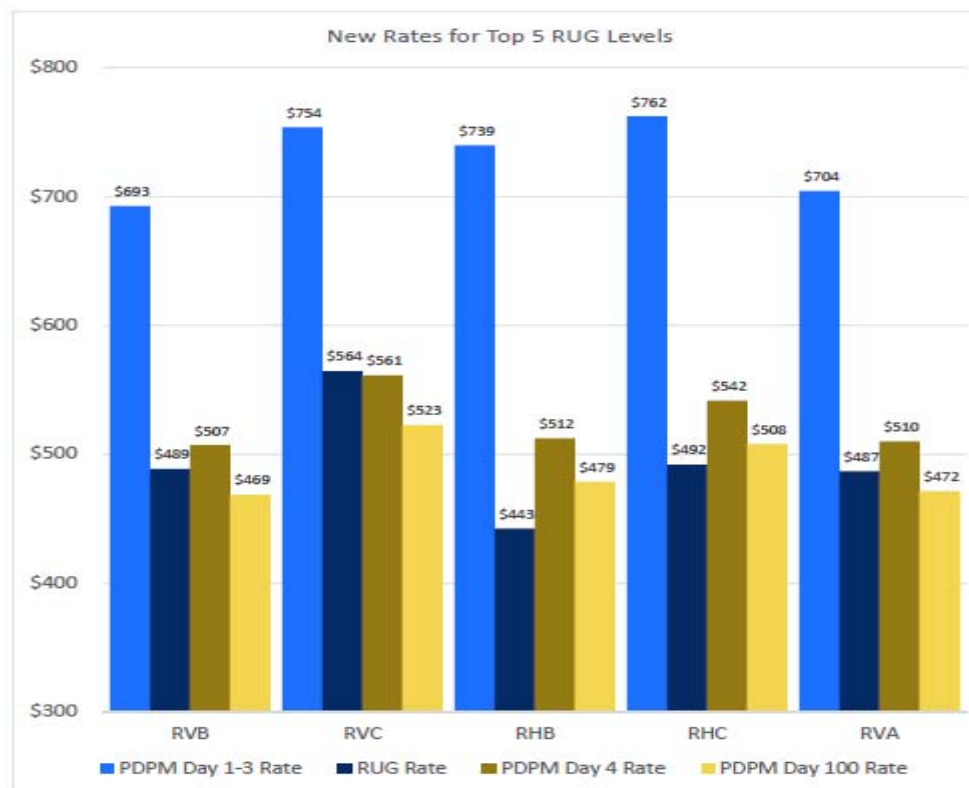
- CMS finalized the Patient Driven Payment Model (PDPM) on July 31, 2018 with an implementation date of October 1, 2019
- Significant changes include:
 - PDPM removes the use of therapy minutes to assess residents for a reimbursement level.
 - PDPM is based on clinical and diagnosis information rather than amount of service needed.
 - PDPM will result in higher rates at the beginning of a stay and lower rates at the end of a stay, as CMS determined constant per diem rates do not accurately reflect medical needs and resources used.
 - The therapy portion of reimbursement will initially increase compared to the RUG rates. However, the therapy rates will decline 2% on day 21 and every 7 days until the end of the stay.
 - The non-therapy ancillary (NTA) portion of the rate will decline from an adjustment of 3 for days 1-3 to an adjustment of 1 for the remaining days in the stay.
- **Key takeaway** – Characteristics of population will determine winners and losers – rehab resident vs resident with comorbidities.



Preparing for PDPM



Preparing for PDPM



Preparing for PDPM

RUGS per-diem 30 day total = \$18,937.50

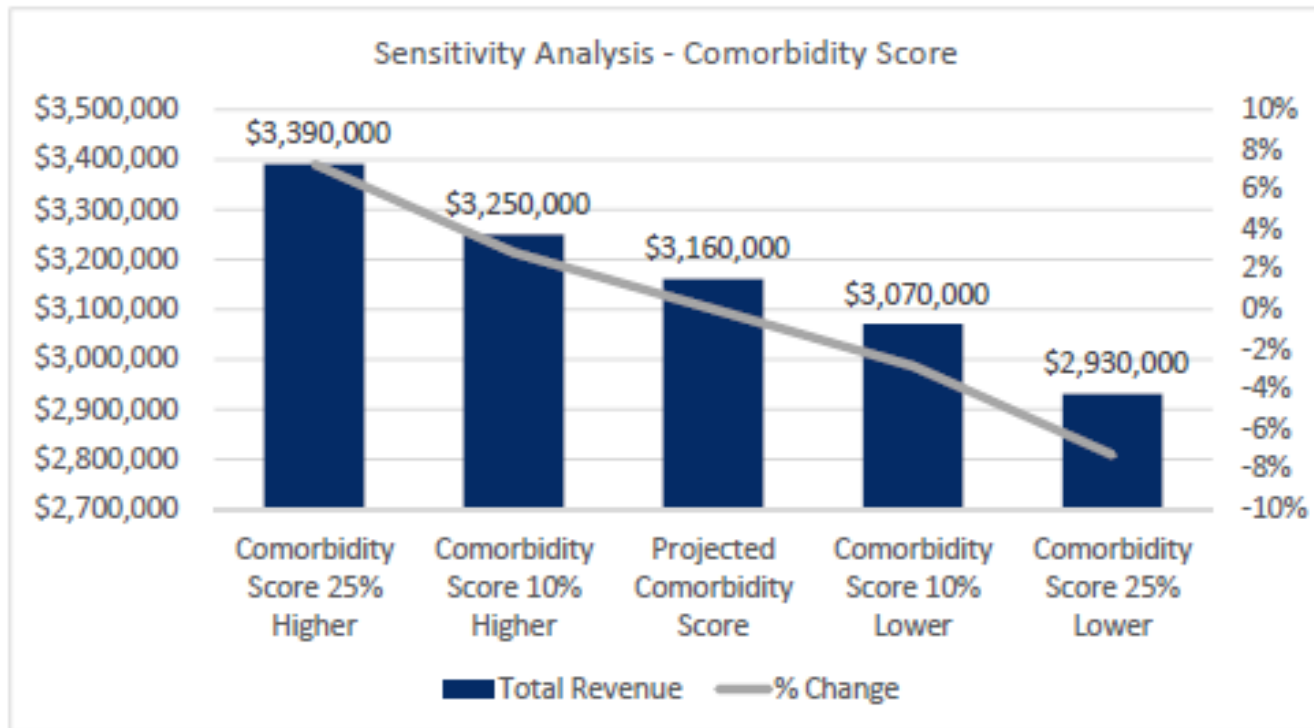
Per-diem = \$631.25 x 30 days

PDPM 30 Day total= \$19,594.52

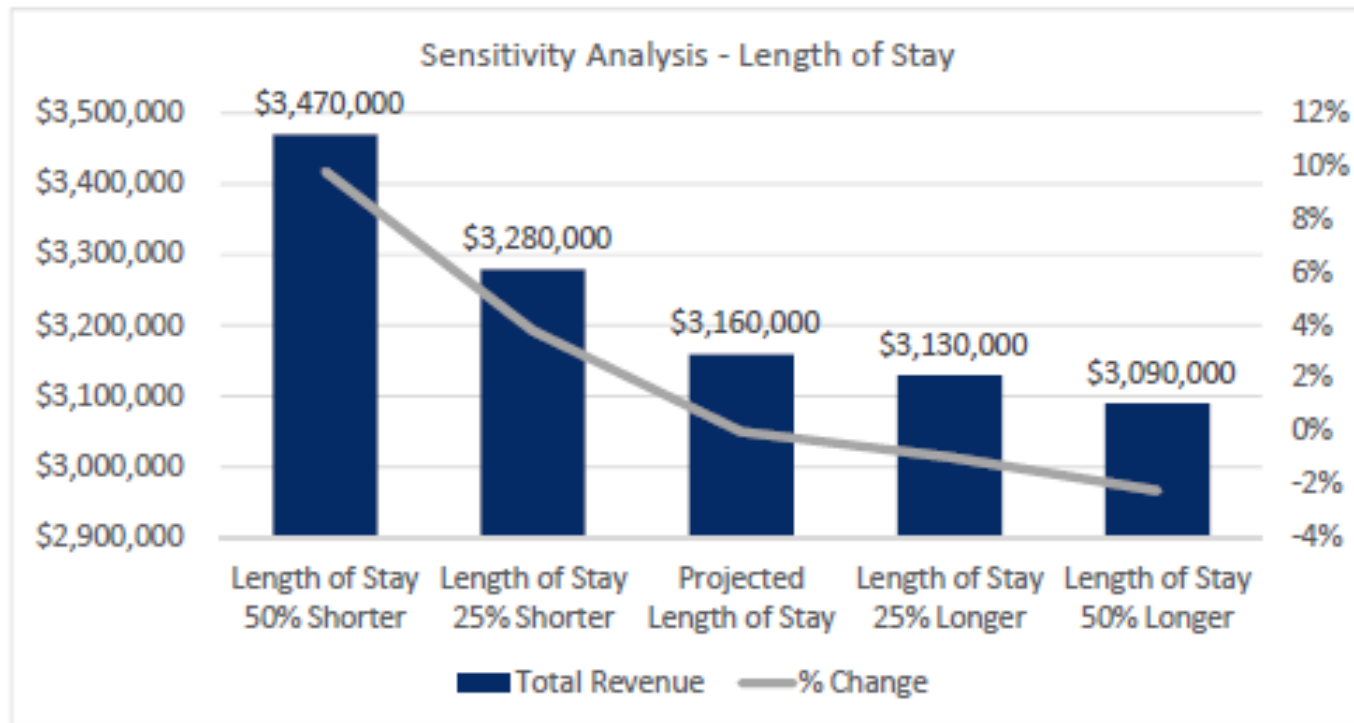
Day 1-3	3 days @ \$914.60	= \$2,743.80
Day 4-20	17 days @ \$625.81	= \$10,638.77
Day 21-27	7 days @ \$622.26	= \$4,355.82
Day 28-30	3 days @ \$618.71	= \$1,856.13
Total		= \$19,594.52



Preparing for PDPM



Preparing for PDPM



Preparing for PDPM



Patient-Driven Payment Model Financial Considerations and Opportunities

Tuesday, March 26

10 – 11 a.m. CT

Webinar

Register for This Event →

<https://www.claconnect.com/events/2019/pdpm-considerations-03-26-19>



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Resident Assessment Coordinator— Certified (RAC-CT®) Certification Workshop

Improve Your Assessment Accuracy

- Navigate tough coding dilemmas with the most current coding and regulatory knowledge
- Recover reimbursement and avoid overpayment by knowing where to find important MDS data
- Proactively solve quality pitfalls by recognizing the clues reflected in your Quality Measure and Five Star reports
- Uncover unique solutions that honor resident preference by synthesizing MDS, CAA, and care plan data into individualized interventions

Date: June 25 – 27

Location: CLA (CliftonLarsonAllen LLP)
10700 Northup Way, Suite 200
Bellevue, WA 98004

Master Teacher: Jillian Martin, RN, DNS-CT, RAC-MT

Continuing Education Hours:

The RAC-CT Workshop is approved for 22.5 CEs

Pricing: \$575 Member | \$775 Non-member
\$899 with new AANAC membership

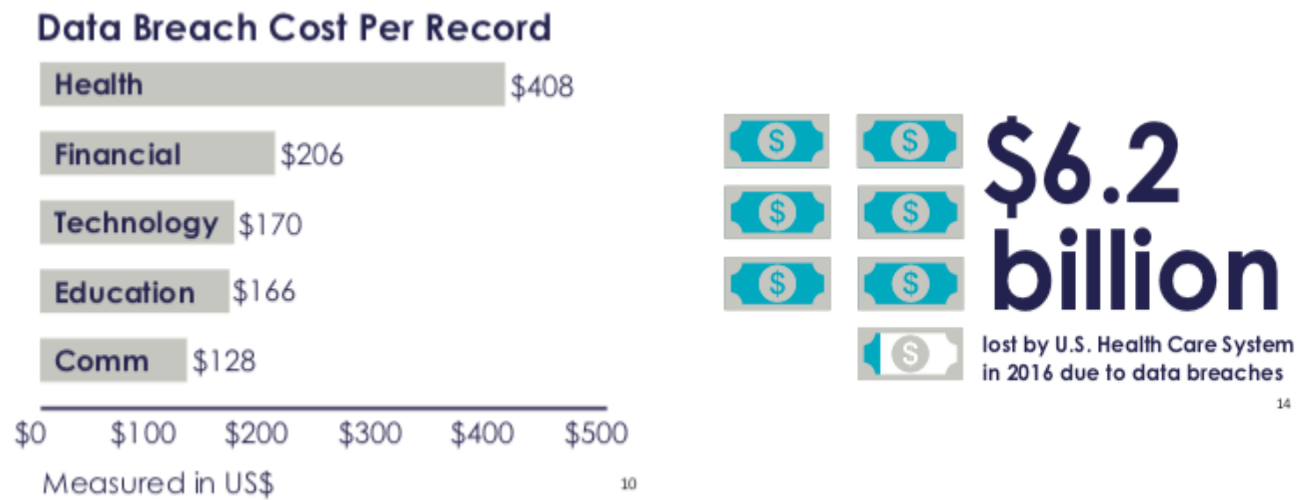


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Financial Impact of Healthcare Breaches



Recent Articles



HEALTH CARE REFORM FOR PROVIDERS | BLOG
Health Care Innovation and Insight Blog (HI2): Your Source For Navigating the Future



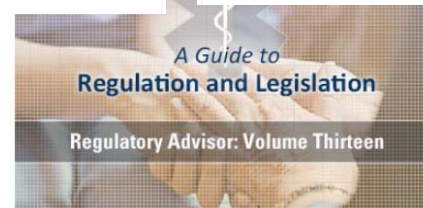
NAVIGATING HEALTH REFORM | ARTICLE
Medicare Advantage Plans Now Offer More Benefits For Senior Living Providers



INDUSTRY TRENDS | WHITE PAPER
2018 CLA Senior Living Trends White Paper Finds Opportunities in Disruptors



NAVIGATING HEALTH REFORM | TOOL
2019 SNF Medicare RUG-IV PPS Rate Calculator Now Available



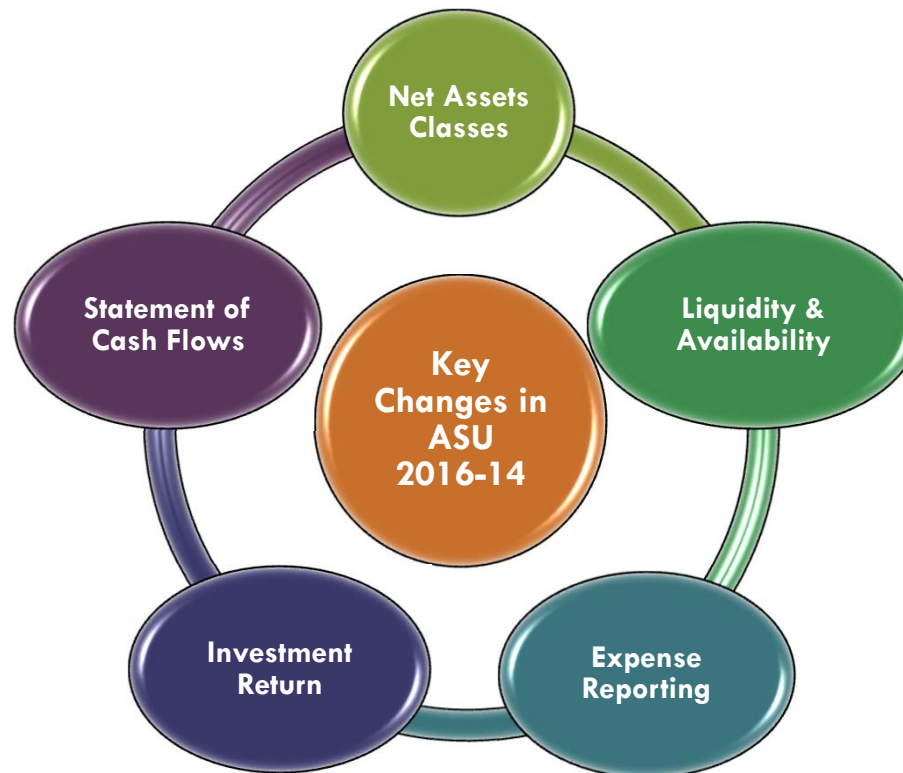
NAVIGATING HEALTH REFORM | ARTICLE
Patient-Driven Payment Model Finalized in 2019 SNF Final Rule

<https://www.claconnect.com/industries/health-care>



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Nonprofit Reporting Standard



New Accounting Standards

Topic	Communication
<p>Presentation of Financial Statements of Not-for-Profit Entities</p> <p>Your Effective Date – 12/31/18</p>	<ol style="list-style-type: none"> 1. Net Assets: Current three classes of net assets becomes two – net assets without donor restrictions and net assets with donor restrictions with enhanced disclosures to understand the nature of restrictions and liquidity/availability of financial assets. 2. Liquidity: Qualitative information on how an NFP manages its liquid available resources and Quantitative information that communicates the availability of assets to meet cash needs for one year. 3. Expense Reporting: More detail required: Disaggregate functional expenses by nature. Disclose methods used to allocate.
<p>Revenue Recognition</p> <p>Your Effective Date – 12/31/19</p>	<ol style="list-style-type: none"> 1. Requires organizations to complete an assessment of the impact the standard will have to their revenue recognition policies. 2. Change in what qualifies to be capitalized as deferred marketing costs. Costs previously capitalized that no longer qualify to be written off as a prior period adjustment to opening equity in the year of adoption.
<p>Leases</p> <p>Your Effective Date – 12/31/20</p>	<ol style="list-style-type: none"> 1. Requires organizations to record all leases with a term of 12 months or greater on the balance sheet.



Employee Parking – Tax/UBIT Issues

- Providing parking to employees is an unrelated business activity if any of the following situations occurs:
 1. Employer pays a third party for a specific employee to have a specific reserved parking spot.
 2. Employer owns or leases a lot that includes any spots reserved for employees.
 3. Employer owns or leases a lot and more than 50% of that lot is used by employees during normal business hours on a normal business day.
- Employer must calculate the parking lot expenses and report a portion as an unrelated business activity on Form 990-T.
- Created by the Tax Cuts and Jobs Act of 2017
- Tax rate = 21%
- Took effect on 1/1/2018
- Document either (a) why the tax doesn't apply or (b) calculation of taxable amount
- We can help if you need assistance with the determination and/or calculation.





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